

Printer's Proof of July 8, 1988

PRELIMINARY OFFICIAL STATEMENT DATED JULY, 1988

NEW ISSUE

In the opinion of Jones Hall Hill & White, A Professional Law Corporation, San Francisco, California, Special Counsel, subject, however, to certain qualifications described herein, under existing law, the portion of the installment payments designated as and comprising interest and received by the Certificate Owners is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal individual and corporate alternative minimum taxes, although it is included in adjusted net book income and current earnings in computing the alternative minimum tax imposed on certain corporations. In the further opinion of Special Counsel, such interest is exempt from California personal income taxes. See "TAX EXEMPTION" herein.

\$9,220,000*

CERTIFICATES OF PARTICIPATION
(1988 WASTEWATER TREATMENT PLANT EXPANSION PROJECT)

Evidencing the Direct, Undivided Fractional Interests of the
Owners Thereof in Installment Payments to be Made by the

CITY OF LODI, CALIFORNIA

As the Purchase Price for Certain Property Pursuant to an
Installment Sale Agreement with the
LODI PUBLIC IMPROVEMENT CORPORATION

Dated. August 1, 1988

Due: August 1, as shown below

The Certificates are being executed and delivered to finance the expansion of the City of Lodi's White Slough Water Pollution Control Facility (the "Project") and to pay expenses of the transaction, as more fully described herein. The Project will be sold by the Lodi Public Improvement Corporation (the "Corporation") to the City of Lodi, California (the "City") pursuant to an Installment Sale Agreement.

Interest due with respect to the Certificates is payable semiannually on each February 1 and August 1, commencing February 1, 1989, by check or draft of Bank of America National Trust and Savings Association, San Francisco, California, the Trustee, mailed to the registered owner of record as of the fifteenth (15th) day of the month prior to such interest payment date at the address shown on the Certificate registration books. Principal of the Certificates will be payable at the principal office of the Trustee. The Certificates are being delivered as fully registered certificates without coupons in the denominations of \$5,000 each or any integral multiple thereof. The Certificates are subject to optional and mandatory redemption prior to maturity as described herein.

The City is legally required under the Installment Sale Agreement to make installment payments from a first and prior lien on the net revenues of the sewer system of the City (the "Sewer system"). Installment payments are scheduled in an amount sufficient to pay, when due, the annual principal and interest with respect to the Certificates. The City has covenanted under the Installment Sale Agreement to prescribe, revise and collect such charges from the services and facilities of the Sewer System which will produce gross revenues sufficient in each Fiscal Year to provide net revenues (gross revenues less operation and maintenance expenses) equal to at least 1.10 times the aggregate annual payment requirements with respect to the Installment Sale Agreement and any party obligations in such Fiscal Year, including replenishment of the Rome Fund as required by the Trust Agreement.

Neither the Certificates nor the obligation of the City to make installment payments under the Installment Sale Agreement constitutes a debt or indebtedness of the City, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction, or a pledge of the faith and credit of the City.

MATURITY SCHEDULE*

Maturity Date (August 1)	Principal Amount	Interest Rate	Price or Yield	Maturity Date (August 1)	Principal Amount	Interest Rate	Price or Yield
1989	\$ 95,000	%	%	1997	\$150,000	%	%
1990	100,000			1998	160,000		
1991	105,000			1999	175,000		
1992	110,000			2000	185,000		
1993	115,000			2001	200,000		
1994	125,000			2002	215,000		
1995	130,000			2003	235,000		
1996	140,000						

\$6,980,000% Certificates Due August 1, 2018; Price%
(Plus accrued interest from August 1, 1988)

The Certificates are offered when, as and if executed and delivered and received by the Underwriter, subject to the delivery of the legal opinion of Jones Hall Hill & White, A Professional Law Corporation, San Francisco, California, Special Counsel and certain other conditions. Certain legal matters will be passed upon for the Underwriter by Mudge Rose Guthrie Alexander & Ferdon, New York New York and for the City by the City Attorney. It is anticipated that the Certificates in definitive form will be available for delivery in Los Angeles, California, on or about August 25, 1988.

Seidler-Fitzgerald
Public Finance

Dated: July, 1988

* Subject to change.

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No dealer, broker, salesperson or other person has been authorized by the City of Lodi, California, to give any information or to make any representations other than those contained herein and if given or made, such other information or representation must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Certificates by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Certificates. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The information set forth herein has been obtained from sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriter. The information and expression of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Sewer System or the City since the date hereof.

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

SUMMARY STATEMENT

THIS SUMMARY STATEMENT IS SUBJECT IN ALL RESPECTS TO THE MORE COMPLETE INFORMATION IN THIS OFFICIAL STATEMENT AND THE OFFERING OF THE CERTIFICATES TO POTENTIAL INVESTORS IS MADE ONLY BY MEANS OF THE ENTIRE OFFICIAL STATEMENT.

Purpose..... Proceeds from the sale of the Certificates will be used to expand the City of Lodi's White slough Water Pollution Control Facility (the "Protect") and to pay expenses of the transaction, as more fully described herein:

Security for the
Certificates..... Each Certificate represents the direct, undivided and fractional interest of the registered owners thereof in installment payments to be made by the City from a first and **prior** lien on the net revenues of its sewer system (the "Sewer System"). The installment payments constitute the purchase price for the Project pursuant to an Installment Sale Agreement with the Lodi Public Improvement Corporation (the "Corporation"), as seller. Under the installment Sale Agreement, the City has pledged to the Corporation the net revenues derived from the operation of the Sewer System to the making of installment payments thereunder. The City has covenanted under the Installment Sale Agreement to prescribe, revise **and** collect such charges for the services and facilities of the Sewer System which will produce gross revenues sufficient in each Fiscal Year to provide net revenues (gross revenues less operation and maintenance expenses) equal to at least 1.10 times the aggregate annual payment requirements with respect to the Installment Sale Agreement and any parity obligations in such Fiscal Year, including replenishment of the Reserve Fund as required by the Trust Agreement. A Reserve Fund **initially** in the amount of \$830,313*, representing the maximum annual installment payment due in the current or any future year as of the date of closing, is established for the benefit of the registered owners as **security** for payment of the installment payments. Payment of the Certificates will be additionally secured by an Assignment Agreement whereby the Corporation has assigned to the Trustee for the benefit of the registered owners of the Certificates certain of its rights under the Installment Sale Agreement, including (i) its rights to amounts payable by the City under the Installment Sale Agreement and (ii) its rights to enforce payment of amounts due upon default. The installment payments are not secured by, and the registered owners of the Certificate have no **security** interest in or mortgage on, the Sewer System.

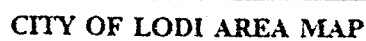
Form of Certificates. The Certificates will be delivered in fully registered form without coupons in the denomination of \$5,000 each or in any **integral** multiple thereof.

Redemption.. The Certificates are subject to optional **and** mandatory redemption, as more fully described herein.

The City..... The City, incorporated as a general law city in 1906, is a community of 9.04 square miles and is located in San Joaquin County, 35 miles south of Sacramento, 90 miles east of San Francisco and 15 miles north of Stockton. The City operates under a Council-Manager form of government and has an estimated 1988 population of 48,200.

* Subject to change.

THE OBLIGATION OF THE CITY TO MAKE INSTALLMENT PAYMENTS UNDER THE INSTALLMENT SALE AGREEMENT IS A SPECIAL OBLIGATION OF THE CITY, PAYABLE SOLELY FROM NET REVENUES OF THE SEWER SYSTEM AND OTHER SOURCES IDENTIFIED IN THE INSTALLMENT SALE AGREEMENT. THE OBLIGATION OF THE CITY TO MAKE SUCH PAYMENTS DOES NOT CONSTITUTE AN INDEBTEDNESS OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NEITHER THE MEMBERS OF THE CITY COUNCIL NOR ANY PERSON EXECUTING THE INSTALLMENT SALE AGREEMENT SHALL BE LIABLE PERSONALLY FOR INSTALLMENT PAYMENTS OR SUBJECT TO ANY PERSONAL LIABILITY OR ACCOUNTABILITY BY REASON OF THE AUTHORIZATION OR EXECUTION THEREOF.



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OFFICIAL STATEMENT
\$9,220,000*
CERTIFICATES OF PARTICIPATION
(1988 WASTEWATER TREATMENT PLANT EXPANSION PROJECT)
Evidencing the Direct, Undivided Fractional Interests of the
Owners Thereof in Installment Payments to be Made by the
CITY OF LODI, CALIFORNIA
As the Purchase Price For Certain Property Pursuant to an
Installment Sale Agreement with the
LODI PUBLIC IMPROVEMENT CORPORATION

INTRODUCTION

The purpose of this Official Statement, which includes the cover page, Table of Contents and Appendices (the "Official Statement"), is to provide certain information concerning the sale and delivery of Certificates of Participation (1988 Wastewater Treatment Plant Expansion Project) (the "Certificates"), in aggregate principal amount of \$9,220,000*, representing the direct, undivided fractional interests of the registered owners thereof (the "Owners") in installment payments (the "Installment Payments") to be made by the City of Lodi, California (the "City"), as the purchase price for certain capital improvements (the "Project") to the sewer system of the City (the "Sewer System"), pursuant to an Installment Sale Agreement, dated as of August 1, 1988 (the "Installment Sale Agreement"), between the City and the Lodi Public Improvement Corporation (the "Corporation"). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of August 1, 1988 (the "Trust Agreement"), by and among the City, the Corporation and Bank of America National Trust and Savings Association, San Francisco, California, as trustee (the "Trustee") and will be paid from Installment Payments payable by the City, as purchaser, to the Corporation, as seller, pursuant to the Installment Sale Agreement. Payment of the Certificates will be additionally secured by an Assignment Agreement, dated as of August 1, 1988, between the Corporation and the Trustee (the "Assignment Agreement"), whereby the Corporation has assigned to the Trustee, for the benefit of the Owners, certain of its rights under the Installment Sale Agreement including (i) its right to amounts payable by the City under the Installment Sale Agreement and (ii) its rights to enforce payment of amounts due upon default.

In general, the City is required to pay to the Trustee, from a first and prior lien on the net revenues of the Sewer System, Installment Payments which are designed to be sufficient in both time and amount to pay, when due, the principal and interest with respect to the Certificates. The City has covenanted in the Installment Sale Agreement to prescribe, revise and collect such charges from the services and facilities of the Sewer System which will produce gross revenues sufficient in each Fiscal Year to provide net revenues (gross revenues less operation and maintenance expenses ("Net Revenues")) equal to at least 1.10 times the aggregate annual payment requirements with respect to the Installment Sale Agreement and any parity obligations in such Fiscal Year, including replenishment of the Reserve Fund as required by the Trust Agreement. A Reserve Fund initially in the amount of \$830,313*, representing the maximum annual installment payment due in the current or any future year as of the date of closing, is established for the benefit of the Owners as security for the payment of the installment payments. The obligation of the City to make Installment Payments constitutes a special obligation of the City payable solely from the Net Revenues of the Sewer System pledged under the Installment Sale Agreement and does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or

* Subject to change.

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pledged any form of taxation. The obligation of the City to make Installment Payments does not constitute an indebtedness of the City, the State of California, or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction. For certain financial information with respect to the Sewer System, see the heading "THE SEWER SYSTEM — Operating Results" herein. For certain financial information with respect to the City, see "Appendix A" hereinafter.

THE PROJECT

General

The Project involves the expansion of the domestic treatment system capacity of the City's White Slough Water Pollution Control Facility (the "Facility"). The Facility is the City's only wastewater treatment facility and includes parallel systems for domestic/commercial and industrial wastewater. See "THE SEWER SYSTEM" herein for a further description of the Facility and the Sewer System.

The Project includes improvements relating to the treatment of domestic wastewater and the disposal of resulting sludge. Treatment improvements include acquisition of two new primary clarifiers, a new aeration basin and two new secondary clarifiers, conversion of existing secondary clarifiers to chlorine contact tanks, and other treatment Process improvements. Sludge disposal improvements include acquisition of a new sludge digester, expansion and modification of existing sludge storage lagoons, modifications to the irrigation conveyance system, piping and plumbing improvements, installation of groundwater monitoring wells and of one-time transfer of existing sludge to a landfill operated by the County of San Joaquin.

The Project also includes acquisition of a 250 kilowatt generator to produce power from the combustion of digester gases. The City expects to use this power on-site to reduce the operating costs of the Facility.

When the Project is completed, the Facility will have a domestic treatment system capacity of 8.5 million gallons per day (mgd), an increase of 2.3 mgd over the current capacity of 6.2 mgd. Based on current growth estimates, the City expects the Facility, as so improved, to meet the demand on the domestic treatment system for the next ten to fifteen years.

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Cost of the Project

The City expects the total cost of the Project to be approximately \$10,950,000. The following shows the expected costs relating to the Project, as estimated by the City:

Expansion of Facility	\$ 8,885,000
Land Acquisition	1,100,000
Contract Administration/Inspection	544,000
Design and Permits	328,000
Start-up Services.....	22,000
Contingencies.....	71,000
Total Project Cost	<u>\$ 10,950,000</u>

The City plans to solicit bids on a construction contract for the Project in April, 1989. The City has received, or expects to receive, all licenses and permits necessary for operation of the Project.

ESTIMATED USE OF PROCEEDS'

The proceeds to be received from the sale of the Certificates (accrued interest from August 1, 1988 to the closing date is not a part of the purchase price to be paid by the Underwriter) are anticipated to be applied as follows:

Project Costs	\$10,950,000 (1)
Less: Reinvestment Earnings During Construction	(1,123,035)(2)
City Contribution	(2,000,000)
Subtotal	7,826,965
Reserve Fund	830,313 (3)
Costs of Issuance	562,722 (4)
Principal Amount of the Certificates	<u>\$ 9,220,000</u>

(1) Estimated by the City.

(2) Assumes a reinvestment rate of 7.00% on the Construction Fund and Reserve Fund balances.

(3) Equal to the Reserve Requirement as of date of closing.

(4) Includes Certificate Discount.

THE CERTIFICATES

General Provisions

The Certificates will be executed and delivered in the aggregate principal amount of \$9,220,000*, will be dated August 1, 1988, will be payable as to interest from August 1, 1988, at the rates per annum set forth on the cover page hereof, payable semiannually on each February 1 and August 1 (each, an "Interest Payment Date"), commencing February 1, 1989, and will mature on August 1, in each of the designated years in the principal amounts shown below:

Year of Maturity	Principal Amount*	Year of Maturity	Principal Amount*
1989	\$ 95,000	1997	\$ 150,000
1990	100,000	1998	160,000
1991	105,000	1999	175,000
1992	110,000	2000	185,000
1993	115,000	2001	200,000
1994	125,000	2002	215,000
1995	130,000	2003	235,000
1996	140,000	2018	6,980,000

Interest due with respect to the Certificates is payable by check or draft of Bank of America National Trust and Savings Association, San Francisco, California, the Trustee, mailed to the Owner of record as of the fifteenth (15th) day of the month prior to the Interest Payment Date at the address shown on the Certificate registration books. Principal of the Certificates will be payable at the principal office of the Trustee in San Francisco, California. The Certificates are being delivered as fully registered certificates without coupons in denominations of 35,000 each or any integral multiple thereof.

Optional Redemption

The Certificates maturing on or before August 1, 1993 are not subject to optional redemption prior to maturity.

The Certificates maturing on and after August 1, 1994 are subject to redemption in whole or in part from time to time (but not in a total redemption amount of less than \$5,000 at any one time) in inverse order of maturity and by lot within a maturity on any Interest Payment Date on or after

* Subject to change.

August 1, 1993, at the principal amount with respect thereto, together with the premium set forth below (expressed as a percentage of the total principal amount to be redeemed), and accrued interest to the date fixed for redemption from the proceeds of optional prepayments made by the City pursuant to the **installment** Sale Agreement:

<u>Date of Redemption</u>	<u>Premium</u>
August 1, 1993 and February 1, 1994.....	2 %
August 1, 1994 and February 1, 1995.....	1 1/2
August 1, 1995 and February 1, 1996.....	1
August 1, 1996 and February 1, 1997.....	1/2
August 1, 1997 and each February 1 and August 1 thereafter.....	0

Insurance and Condemnation Redemption

The Certificates are subject to mandatory redemption (but not in a total redemption amount of less than \$5,000 at any one time) on any August 1 or February 1 on or after February 1, 1989, in whole or in part from time to time, from the net proceeds of any insurance or condemnation award deposited in the **Installment** Payment Fund and credited toward the prepayment made by the City pursuant to the **Installment** Sale Agreement, at a redemption price equal to the principal amount thereof, together with accrued interest to the date **fixed** for redemption, without premium.

Mandatory Redemption

The Certificates maturing August 1, 2018 are subject to mandatory redemption on August 1 of each year on and after August 1, 2004, from the principal components of the **Installment** Payments required to be paid by the City pursuant to the **Installment** Sale Agreement with respect to each such redemption date, at a redemption price **equal** to the principal amount thereof to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium as follows:

<u>Mandatory Redemption Date (August 1)</u>	<u>Principal Amount*</u>	<u>Mandatory Redemption Date (August 1)</u>	<u>Principal Amount*</u>
2004	\$250,000	2012	5475,000
2005	275,008	2013	515,000
2006	295,000	2014	555,000
2007	320,000	2015	605,000
2008	345,000	2016	655,000
2009	375,000	2017	705,000
2010	405,000	2018	765,000†
2011	440,000		

† Final maturity.

In the event that any Certificates maturing on August 1, 2018 are redeemed pursuant to the optional redemption or insurance and condemnation redemption provisions, the amount of Certificates to be redeemed in each subsequent year pursuant to the **mandatory** redemption provisions shall be **modified** to correspond to the principal components of the **installment** Payments payable following **such** redemption.

Selection of Certificates for Redemption

It less than all outstanding Certificates are called for redemption, the **Trustee** shall select **Certificates** for redemption, from the outstanding Certificate not previously called for redemption in inverse order of maturity and by lot within a maturity in any manner which the Trustee shall in its sole discretion **deem** appropriate and fair.

* Subject to change.

Notice of Redemption

Notice of any redemption shall be given by the Trustee on behalf of the City by mailing a copy of an official redemption notice by first class mail at least thirty (30) days and not more than sixty (60) days prior to the date fixed for redemption to the Owner of the Certificate or Certificates to be redeemed at the address shown on the certificate registration books or at such other address as is furnished in writing by such Owner to the Trustee.

All official notices of redemption shall be dated and shall state: (i) the redemption date, (ii) the redemption price, (iii) if less than all outstanding Certificates are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the Certificates to be redeemed, (iv) that on the redemption date the redemption price will become due and payable upon each such Certificate or portion thereof called for redemption, and that interest with respect thereto shall cease to accrue from and after said date, and (v) the place where such Certificates are to be surrendered for payment of the redemption price, which place of payment shall be the principal corporate trust office of the Trustee in San Francisco, California.

In addition to the foregoing notice, further notice shall be given by the Trustee, at least thirty-five (35) days before the redemption date, by telecopy, registered, certified or overnight mail to certain securities depositories and to one or more information services, but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as prescribed above.

Neither the failure by any Owner to receive notice as hereinabove provided nor any defect in any notice shall affect the sufficiency of the proceedings for the redemption of Certificates.

Source of Payment for the Certificates

Each Certificate represents a direct, undivided and fractional interest in Installment Payments to be made by the City to the Corporation under the Installment Sale Agreement. The Corporation, pursuant to the Assignment Agreement, will assign certain of its rights under the Installment Sale Agreement to the Trustee for the benefit of the Owners, including its right to receive Installment Payments and prepayments made under the Installment Sale Agreement and its rights to enforce payment of the Installment Payments when due in the event of a default by the City. The obligation of the City to make Installment Payments constitutes a special obligation of the City payable solely from a first and prior lien on the Net Revenues; certain net proceeds of insurance or condemnation proceedings pertaining to the Project to the extent that such net proceeds are not used for the repair, reconstruction or replacement of the Project pursuant to the Installment Sale Agreement; and certain interest and other income derived from the investment of funds and accounts held by the Trustee for the City pursuant to the Trust Agreement.

Net Revenues are gross revenues of the Sewer System (i.e., all income, rents, rates, fees, charges and other moneys received by the City from the ownership and operation of the Sewer System), less operation and maintenance expenses. Operation and maintenance expenses include all expenses and costs of management, operation, maintenance and repair of the Sewer System and all incidental costs, fees and expenses properly chargeable to the Sewer System except for depreciation expense.

The City has covenanted that it will prescribe, revise and collect such charges for the services and facilities of the Sewer System which will produce gross revenues sufficient in each Fiscal Year to provide Net Revenues equal to at least 1.10 times the aggregate annual payment requirements with respect to the Installment Sale Agreement and any parity obligations in such Fiscal Year, including replenishment of the Reserve Fund as required by the Trust Agreement. If the City does not meet the rate covenant, the City has covenanted to hire an independent consultant to recommend revised rates and fees and the City will, to the extent practicable and subject to applicable requirements and restrictions imposed by law and subject to a good faith determination by the City that such recommendations are in the best interests of the City, implement such revised rates so as to produce the necessary Net Revenues.

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The City has the right to issue or incur parity debt, on a parity with the Installment Sale Agreement, provided:

- (i) The City **is** not in default under the terms of the Installment Sale Agreement;
- (ii) Net Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest fiscal year of the **City**, currently July 1 to June 30 in the succeeding year (the "Fiscal Year"), or any more recent twelve (12) month period selected by the City ending not more than sixty (60) days prior to the adoption of the resolution pursuant to which instrument such Parity Debt is issued or incurred, **as** shown by the **books** of the City, **plus**, at the option of the City, either or both of the items below designated (1) and (2), shall have amounted to at least 1.10 times the sum of the maximum Installment Payments coming due and payable in any future Fiscal Year and the maximum annual debt service on all Parity Debt outstanding immediately subsequent **to** the incurring of such additional obligations.

Either or both of the following items may be added to Net Revenues for the purpose of applying the restriction contained above:

- (1) An allowance for revenues from any additions to or improvements or extensions of the Sewer System to be made with the proceeds of such additional obligations, and also for **net revenues** from any such additions, improvements or extensions which have been made from moneys **from** any source but which, during all or any part of such Fiscal Year, were **not** in service, **all** in an amount equal to 70% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period following closing of the proposed Parity Debt, all as shown by the certificate or opinion **of** a qualified independent engineer employed by the City.
- (2) An allowance for **earnings** arising from any increase in the charges made for service from the Water System which has become effective prior to the incurring of such additional obligations but which, during all or any part of such Fiscal Year, was not in effect, **in** an amount equal to 100% of the amount **by which** Net Revenues **would** have been increased if such increase in charges had been in effect during **the** whole of such Fiscal Year and any period prior **to** the incurring of such additional obligations, as shown by the certificate or opinion **of** a qualified independent engineer employed by the City; and
- (iii) A reserve fund **shall** be funded for such Parity Debt which is at least **equal** to the amount resulting from the application on the closing date of such Parity Debt of **the** formula contained in the definition of "Reserve Requirement" contained **in** the Installment Sale Agreement.

The obligation of the City to **make** Installment Payments does **not** constitute **an** obligation of the City **for** which the City **is** obligated to levy or pledge any form of taxation **or for** which the City has levied or pledged any form of taxation. Neither the Certificates nor the obligation of the City to make Installment Payments constitutes an indebtedness of **the** City, the State of California **or** any of its political subdivisions within the meaning of the Constitution of the State of California nor a pledge of the faith and credit of the City.

In the event the City fails to **make** any Installment Payment when due, the Installment Payment in default shall continue as an obligation of the City and the City shall pay the same with interest thereon, **to the** extent permitted by law, from the date thereof at the rate of interest payable with respect to the Certificates. Should the City default under the Installment Sale Agreement, the Trustee, **as** assignee **of the** Corporation, has the right to: (i) declare all principal components of the unpaid Installment Payments, together with accrued interest at the **rate or rates** specified in the respective outstanding Certificates, from the immediately preceding Installment Payment date on which **pay-**ment was made, to be immediately due and payable, whereupon the same shall be due and payable, **and** (ii) take whatever action at **law** or in equity may appear necessary or desirable to collect the Installment Payments then due or thereafter to become due, or enforce performance and observance

of any obligation, agreement or covenant of the City under the Installment Sale Agreement. The City's liability to pay the Installment Payments is limited solely to Net Revenues. In the event Net Revenues are insufficient to pay an installment Payment in full, the City shall **not** be liable to pay any **such** Installment Payment other than from Net Revenues.

The City ~~has~~ covenanted to procure insurance on the Project to the extent set forth herein under the heading "INSTALLMENT SALE AGREEMENT — Insurance" and certain insurance proceeds are required to be applied, at the option of the City, to the ~~repair~~ of the Project or to the prepayment of Installment Payments.

A Reserve Fund **is** established by the Trust Agreement and is required to be funded from proceeds of the Certificates in an amount, as **of** any date of calculation, equal **to** the lesser of (i) ten percent of the aggregate original ~~principal~~ component of Installment Payments, (ii) the maximum amount of Installment Payments due in the current or any future year or (iii) 125% of the average amount of Installment Payments due in the current or any future year (the "Reserve Requirement"). The City **is** required to maintain the Reserve Fund at an amount equal to the Reserve Requirement. If, on any date of computation, amounts on hand in the Reserve Fund are less than the Reserve Requirement because of a transfer therefrom, the City **is** required to restore the Reserve Fund to the Reserve Requirement within **one year**, from Net Revenues. Amounts in the Reserve **Fund** are to be **used** only for the payment of Installment Payments to **the** extent amounts in the Installment Payment Fund **are** insufficient therefor. Whenever any amounts are withdrawn from the Reserve Fund for transfer to the Installment Payment **Fund**, then upon receipt **of the** delinquent Installment Payment, such Installment Payment **shall** be deposited in the Reserve Fund **to** the extent of such transfer. Prior to **the** completion of the construction of the **Project**, interest income on investments credited to the Reserve Fund are to **be** periodically transferred **to the** Construction Fund, provided that the Reserve **Fund** is funded at the Reserve Requirement. Following completion of construction of the Project, amounts from investment earnings accumulating **in** the Reserve Fund **in** excess of the Reserve Requirement **are** to be transferred to the Installment Payment Fund on or prior to February 1 and August 1 of each year.

Installment Payments

Installment Payments are **required to be** made by the City under the Installment Sale Agreement on the fifteenth (15th) day of each **January and July**, commencing **January 15, 1989** (each a "Due Date"), in an amount, **on each** such date equal to the scheduled Installment Payment due on the succeeding August 1 and February 1.

The Trust Agreement requires that Installment Payments be deposited in the Installment Payment Fund maintained by the Trustee. Pursuant to the Trust Agreement, the Trustee will apply such amounts in the Installment Payment Fund as are necessary to make principal and interest payments due with respect to the Certificates on February 1 and August 1 of each year commencing February 1, 1989, sufficient to meet the following annual amortization schedule:

Maturity (August 1)	Principal*		Interest*	Total Payments*
	serials	Term		
1989	\$ 95.000		\$ 734,940.00	\$ 829,940.00
1990	100.000		729,952.50	829,952.50
1991	105.000		724,452.50	829,452.50
1992	110.000		718,415.00	828,415.00
1993	115.000		711,815.00	826,815.00
1994	125.000		704,627.50	829,627.50
1995	130.000		696,502.50	826,502.50
1996	140.000		687,727.50	827,727.50
1997	150.000		677,927.50	827,927.50
1998	160.000		667,127.50	827,127.50
1999	175.000		655,287.50	830,287.50
2000	185.000		641,987.50	826,987.50
2001	200.000		627,650.00	827,650.00
2002	215.000		611,850.00	826,850.00
2003	235.000		594,650.00	829,650.00
2004		\$ 250.000	575,850.00	825,850.00
2005		275.000	555,225.00	830,225.00
2006		293.000	532,537.50	827,537.50
2007		320.000	508,200.00	828,200.00
2008		345.000	481,800.00	826,800.00
2009		375.000	453,337.50	828,337.50
2010		405.000	422,400.00	827,400.00
2011		440.000	388,987.50	828,987.50
2012		475.000	352,687.50	827,687.50
2013		515.000	313,500.00	828,500.00
2014		555.000	271,012.50	826,012.50
2015		605.000	225,225.00	830,225.00
2016		655.000	175,312.50	830,312.50
2017		705.000	121,275.00	826,275.00
2018		765.000	63,112.50	828,112.50
Totals	\$2,240.000	\$6,980.000	\$15,625,375.00	\$24,845,375.00

* Subject to change.

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2017.....		705.000	121,275.00	826,275.00
2018.....		765.000	63,112.50	828,112.50
Totals.....	\$2,240,000	\$6,980,000	\$15,625,375.00	\$24,845,375.00

* Subject to change.

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Flow of Funds

From the proceeds of the sale of the Certificates, the Trustee shall (i) deposit into the Reserve Fund an amount equal to the Reserve Requirement as of the Closing Date, (ii) deposit a specified amount in the Delivery Costs Fund, and (iii) deposit the balance of such proceeds in the Construction Fund.

Pursuant to the terms of the Installment Sale Agreement, on the fifteenth day of each January and July, the City is legally required to make Installment Payments to the Trustee from Net Revenues, equal to the amount necessary for the Trustee to pay the principal and interest with respect to the Certificates due and payable on each February 1 and August 1. Pursuant to the terms of the Trust Agreement, (i) all Installment Payments received by the Trustee from the City, (ii) certain net proceeds awarded in insurance or eminent domain proceeding to the extent not used to repair or replace the Project, and (iii) any other moneys required to be deposited pursuant to the Installment Sale Agreement or the Trust Agreement, shall be deposited in the Installment Payment Fund; except to the extent required to be deposited in the Reserve Fund to remedy a deficiency therein resulting from a prior draw.

The Trustee shall promptly distribute on February 1, 1989, and on each August 1 and February 1 thereafter, the funds on deposit in the Installment Payment Fund to the Owners in payment of principal and interest then due with respect to the Certificates.

If on any January 20 or July 20, on or after January 20, 1989, the amount of the Installment Payments then due and unpaid exceeds the amount on hand in the Installment Payment Fund, the Trustee will transfer the necessary amount from the Reserve Fund, and in the event a deficiency remains in the Installment Payment Fund, the Trustee shall apply amounts transferred from the Reserve Fund, together with all other moneys on hand in the Installment Payment Fund first to the payment of interest past due with respect to all outstanding Certificates, pro rata if necessary, and second to the payment of the unpaid principal balance with respect to each Certificate which is then past due, pro rata if necessary.

Any surplus remaining in the Installment Payment Fund after redemption and payment of all Certificates, including accrued interest, if any, and payment of any applicable fees to the Trustee, or provision for such redemption or payment having been made to the satisfaction of the Trustee, shall then be remitted to the City.

Limitations on Remedies Available to Owners of the Certificates and the Trustee

The enforceability of the rights and remedies of the Owners of the Certificates and the Trustee, and the obligations incurred by the City, may be subject to the following: the Federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equity principles which may limit the specific enforcement under state law of certain remedies: the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Owners of the Certificates to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitations, or modification of their rights.

THE SEWER SYSTEM

History

The City of Lodi constructed its first wastewater treatment plant in 1923. This plant remained in service without expansion until 1952, when the service area consisted of approximately 3.33 square miles. At that time, and again in 1956, the treatment plant was expanded to achieve a capacity of 3.6

mgd. Cannery waste was mixed with treatment plant effluent and disposed of by irrigation at the present site of the Facility. In 1967 the City completed construction of the Facility. The Facility was expanded in late 1977 to increase the capacity of the domestic treatment facilities from 3.5 mgd to 5.8 mgd. In addition more pasture lands were purchased for summer irrigation, thus eliminating summer discharges into the San Joaquin-Sacramento River Delta System. The Facility now serves the City's entire area of 9.45 square miles.

Wastewater Treatment Facilities

All wastewater generated in the City of Lodi is collected and treated at the Facility, situated 6.5 miles southwest of central Lodi, or about 4.5 miles beyond the present City limits. This agricultural area is about 2 miles east of White Slough, a component of eastern portion of the San Joaquin-Sacramento River Delta System. The Facility, initially constructed in 1967, includes parallel treatment systems for domestic/commercial and industrial wastewater, although some industrial users discharge into the domestic system.

The existing Facility consists of an activated sludge system presently having an approximately 6.2 mgd capacity for domestic wastes, and an aerated lagoon and storage pond system having an approximately 3.75 mgd capacity for industrial waste. Preliminary treatment of the domestic wastewater is accomplished by comminutors and detritors. Primary treatment consists of three rectangular clarifiers. Secondary treatment facilities consist of three activated sludge aeration basins with a fine bubble aeration system, and five rectangular secondary clarifiers. The aeration system is driven by three rotary blowers. The treated effluent is then disinfected through chlorine contact tanks and dechlorinated prior to surface water discharge. Industrial effluent and a portion of the treated domestic effluent (averaging 28 percent, between 1983 and 1986) are used for irrigation of an adjacent 655 acres of City-owned agricultural land. The remaining treated domestic effluent is discharged to Dredger Cut, a waterway connecting to White Slough. Sludge is thickened and digested and then stored in lagoons, to be periodically removed for use on local agricultural land. Waste methane gases from the treatment process are used for space and digester heating or flared at the plant site.

Sewer Collection System

The existing collection system, not including the outfall to the treatment plant, consists of approximately 146 miles of 4" to 48" sewers constructed of clay, concrete, and PVC plastic materials. Included in this system are five lift stations which serve outlying portions of the City and one industrial waste pumping station. The collection system currently serves over 18,325 dwelling units, 1,372 acres of commercial/industrial development, and 250 acres of schools. Over 50% of the sewers are 6" in diameter. The condition of the trunk sewers is generally good. The following is a tabulation of the sewers.

Sewer Size (inches)	Total Feet	Sewer Size (inches)	Total Feet
48	31,910	15	15,600
42	8,900	14	7,015
30	7,399	12	38,411
24	14,417	10	49,560
21	17,332	8	109,223
18	33,308	6	425,253
16	7,636	4	5,211

Sources: City of Lodi.

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Sewer System Operation

The domestic wastewater collection system conveys all domestic and commercial flows and limited industrial flows. The industrial wastewater system conveys the waste contributed by major industries, except General Mills which discharges its pre-treated waste into the domestic system. The wastewater collection system serves all of the developed property within the City limits. Presently, City ordinance does not allow service outside the City limits. The maintenance program for these facilities is accomplished by City crews. This program includes the systematic hydrocleaning, smoke testing and TVing of mains throughout the City.

Capital Program

In addition to pursuing completion of the Project, the City is pursuing a number of additional capital projects relating to the maintenance and improvement of the Sower System. The most recent Five Year Capital Improvement Plan, dated June 30, 1987, calls for approximately \$507,000 in capital expenditures over the five year period ending June 30, 1992. In addition, the City may undertake repairs and extensions to certain sewer mains of approximately \$200,000 during this period. Decisions on funding these projects are anticipated to occur over the next four years. The City expects to finance all such costs through Sewer System revenues.

Sewer Rates

The sewer rates for the entire sewer system are set by the City and are not subject to review by any state or local government agency. In the past, rate changes have been enacted by the City Council based upon the recommendations of staff or a private sewer engineering consultant. The most recent revision to the City's sewer rate structure was established by a resolution of the City Council and implemented on October 1, 1986. Pursuant to such resolution, the fees for the Domestic System and Holding Tank Wastes are to be automatically increased by 15% annually on October 1 of each year (commencing October 1, 1987) until the Project is completed or such resolution is superseded. The following table outlines the current rate structure.

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CITY OF LODI SEWER CHARGES

DOMESTIC SYSTEM

A. Residential

a. Sewer Service Charge

Number of Bedrooms	Monthly Rate
1	\$ 3.51
2	4.68
3	5.85
4	7.03
5	8.19
6	9.36
7	10.51

b. Connection Fee \$1,380.00 per unit*

* Sewage Service Unit, defined as each increment of flow equal to the flow of a typical two-bedroom residence.

B. Commercial

- a. Annual Sewage Service 556.17 per unit per year
- b. Connection Fee \$1,380.00 per unit

C. Industrial

- a. Annual Sewage Service

<u>Unit Item</u>	<u>Unit Charge</u>
Flow — million gal./ms (MG)	5270.25 per MG
Biochemical Oxygen Demand (BOD) — 1,000 lbs.	132.25 per 1,000 lbs.
Suspended Solids (SS) — 1,000 lbs.	108.10 per 1,000 lbs.

- b. Connection Fee

Moderate Strength User	\$1,380.00 per unit
High Strength User	

<u>Unit Item</u>	<u>Unit Charge</u>
Flow — MG	\$446.20 per MG
BOD — 1,000 lbs.	184.00 per 1,000 lbs.
SS — 1,000 lbs.	82.80 per 1,000 lbs.

INDUSTRIAL SYSTEM

- A. Annual Sewage Service

<u>Unit Item</u>	<u>Unit Charge</u>
Flow — MG	To be determined annually by the Public Works Director.
BOD — 1,000 lbs.	

- B. Connection Fee To be determined annually by the Public Works Director.

HOLDING TANK WASTES

- A. Dumping Charge \$41.40 per 1,000 gal.

STORM DRAIN SYSTEM

- A. Storm Drain Disposal Charge \$50.08 per MG

Source: City of Lodi.

Financial Statements

The following tables present the City's Sewer System's Balance Sheet and Statement of Revenues, Expenses and Changes in Retained Earnings prepared by the City of Lodi from audited financial statements for fiscal years 1985-86 and 1986-87 as taken from the City's audited financial statements.

The City's audited financial statements dated October 28, 1987 for the fiscal year ended June 30, 1987 which includes the Sewer System, is available from the City. An opinion letter was issued by the City's auditor. The records of the enterprise funds were incomplete as to fixed assets and related depreciation. Because the City's auditor was unable to satisfy itself by appropriate audit tests or by other means as a result of such incomplete records, it was unable to express an opinion on the financial Statements of the enterprise funds. Consequently, the City's auditor excluded the enterprise funds from its opinion as to the fair presentation of the City's financial condition in conformity with generally accepted accounting principles.

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**CITY OF LODI
SEWER FUND
BALANCE SHEET
For the Years Ended June 30,**

	1986	1987	1988(1)
ASSETS			
Cash and certificates of deposit	\$ 1,129,696	\$ 1,611,598	\$ 1,868,618
Investments	481,386	686,714	775,987
Receivables (net of allowances for uncollectibles):			
Utility	58,011	73,954	53,568
Miscellaneous bills collectible	7,117	489	553
Interest	16,662	21,244	24,006
Due from other fund or governmental agencies	0	4,998	5,648
Supplies inventory	9,553	5,875	6,639
Other assets	17,250	15,150	17,120
Fixed assets	10,458,031	10,521,131	11,888,878
Accumulated depreciation	(3,104,254)	(3,479,868)	(3,932,251)
Total Assets	<u>\$ 9,068,452</u>	<u>\$ 9,461,290</u>	<u>\$10,738,766</u>
LIABILITIES AND RETAINED EARNINGS			
Accounts payable and other liabilities	\$ 55,913	\$ 43,802	\$ 49,496
Accrued salaries and wages	15,329	17,939	20,271
Due to other funds	0	7,861	8,883
Accrued compensated absences	94,950	110,789	125,192
Total Liabilities	166,192	180,391	203,842
RETAINED EARNINGS	<u>8,902,260</u>	<u>9,280,899</u>	<u>10,534,924</u>
Total Liabilities and Retained Earnings	<u>\$ 9,068,452</u>	<u>\$ 9,461,290</u>	<u>\$10,738,766</u>

(1) Estimated -

Source: City of Lodi.

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**CITY OF LODI
SEWER FUND
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
For the Years Ended June 30,**

	<u>1986</u>	<u>1987</u>
OPERATING REVENUES		
Charges for services	\$1,400,927	\$1,932,686
OPERATING EXPENSES		
Personal Services	588,607	640,790
Supplies, materials and services	436,833	542,945
Electric, sewer and water	92,671	212,010
Depreciation	373,433	314,384
Total Operating Expenses	<u>1,491,544</u>	<u>1,710,138</u>
Net Operating Income (Loss)	<u>(90,617)</u>	<u>232,548</u>
NONOPERATING REVENUES		
Taxes-bond redemption	275,684	247,590
Interest Revenue	106,914	123,222
Rent	83,825	66,071
Other	10,098	9,033
Total Nonoperating Revenues	<u>476,524</u>	<u>445,916</u>
Income Before Operating Transfers	385,307	668,464
Operating transfer out	<u>(280,745)</u>	<u>289,525</u>
Net Income	105,162	378,639
Retained earnings — beginning of year	8,797,098	8,902,260
Retained earnings — end of year	<u><u>\$8,902,260</u></u>	<u><u>\$9,280,899</u></u>

Source: City of Lodi.

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Operating Results

The following table presents a five year comparison of revenues and expenses of the Sewer Fund as taken from the City's audited financial statements. The following table excludes depreciation charged to the Sewer Fund and transfers to other funds.

CITY OF LODI SEWER FUND STATEMENTS OF REVENUES AND EXPENSES For Fiscal Years Ended June 30,

	1983	1984	1985	1986	1987
OPERATING REVENUES					
Charges for Services.....	\$1,167,688	\$1,194,036	\$1,367,130	\$1,400,927	\$1,932,686
OPERATING EXPENSES					
Personal services	366,339	424,938	548,414	588,607	640,799
Supplies, material and services	133,143	178,270	199,918	436,333	542,945
Electric, sewer and water	314,680	308,819	136,546	92,671	212,010
Total Operating Expenses..	814,762	912,027	884,875	1,118,111	1,395,754
Net Operating income	352,926	232,009	482,252	282,816	536,932
NONOPERATING REVENUES (EXPENSES)					
Taxes — Bond Redemption.	289,851	289,102	275,623	375,684	247,590
Interest Revenue	85,459	90,753	104,999	106,914	123,222
Rent	50,235	70,875	65,975	83,528	66,071
Other	(299,803)	(542,804)	(2,748)	10,098	9,033
Total Nonoperating Revenues (Expenses).....	125,742	(92,076)	443,849	476,524	445,916
Net Revenue	\$ 478,668	\$ 189,933	\$ 926,101	\$ 759,340	\$ 982,848

Source: City of Lodi.

Projected Operating Results

The following is a projection of the revenues and expenses of the City for five fiscal years as prepared by the City. These projections exclude depreciation charged to the Sewer Fund and transfers to other funds. The projection of operating revenues are based upon assumed rate increase of 15% in October, 1988 and October, 1989 as described above under "THE SEWER SYSTEM — Sewer Rates". These projections are based upon the City's current circumstances and available information that the City believes to be reasonable. The assumptions may be affected by numerous factors and there can be no assurance that such projections will be achieved.

CITY OF LODI SEWER FUND PROJECTED SUMMARY STATEMENT OF REVENUES, EXPENSES AND DEBT SERVICE COVERAGE For Fiscal Years Ending June 30,

	1988	1989	1990	1991	1992
OPERATING REVENUES					
Charges for Service	\$1,524,255	\$1,772,000	92,090,960	92,247,782	\$2,250,000
NONOPERATING REVENUES					
Connection Fees	977,470	1,087,435	865,000	53,000	50,000
Property Tax	279,500	284,000	175,000	178,000	175,900
Interest	194,315	210,000	252,000	469,038	530,238
Rent	73,760	66,865	70,000	72,500	75,000
Miscellaneous	960	2,000	4,250	4,500	4,750
Total Nonoperating Revenues	1,531,005	1,650,300	1,366,250	774,038	835,878
TOTAL REVENUES	3,005,260	3,422,300	3,457,210	3,021,820	3,085,878
EXPENSES					
Administration	91,350	118,130	124,037	130,238	136,750
Engineering	6,970	19,425	20,396	21,416	22,487
Plant Maintenance	756,900	804,330	875,410	955,820	1,102,332
Sanitary System	140,815	142,800	149,940	157,437	165,309
Industrial System	3,515	3,555	4,048	4,250	4,463
Insurance	15,195	17,000	17,850	18,743	19,680
Interfund	109,535	113,985	119,684	125,668	131,952
Existing Debt Service	281,255	284,000	175,000	178,000	175,900
Routine Capital	100,000	275,000	105,000	110,250	115,763
Total Expenses	1,505,541	1,778,525	1,591,364	1,701,822	1,874,635
Net Revenues Available for Installment Sale Payment	\$1,549,719	\$1,643,775	\$1,865,846	\$1,319,998	\$1,211,243
Installment Sale Payment					
Debt Service	—	367,470	827,446	527,203	826,434
Coverage	—	4.47x	2.25x	1.60x	1.47x

Source: City of Lodi.

Sewer System Users

The top ten Sewer System users accounted for 14.9% of total usage. The largest user, Pacific Coast Producers, accounted for 8.4% of total usage. The following are the top ten users of the Sewer System and their annual usage:

CITY OF LODI TEN LARGEST USERS OF THE SEWER SYSTEM 12 Months Through March 31, 1988

Customers	12 Month Usage (100 Gallons)
Pacific Coast Producers	2,011,000
General Mills — Turner Road	495,000
Holz Rubber	341,000
General Mills — SBG	150,000
Lodi Memorial Hospital	150,000
Tokay High School	135,000
Lodi High School	119,000
Lustre-Cal Nameplate	76,000
El& Car Wash	50,000
Valley Industries	50,000

Source: City of Lodi.

THE CORPORATION

The Lodi Public Improvement Corporation was organized in 1988 pursuant to Nonprofit Public Benefit Corporation Law of the State of California (Title 1, Division 2, Part 2 of the California Corporation Code), for the purpose of rendering financial assistance to the City by financing, refinancing, acquiring, constructing, improving, leasing and selling buildings, building improvements, equipment, electrical, water, sewer, road and other public improvements, lands and any other real or personal property for the benefit of the residents of the City and surrounding areas.

INSTALLMENT SALE AGREEMENT

The following is a brief outline of certain provisions contained in the Installment Sale Agreement between the City and the Corporation, and is not to be considered a full statement pertaining thereto.

Term

The term of the Installment Sale Agreement is for a period commencing August 1, 1988, and ending on August 1, 2018 or such earlier or later date (but not later than August 1, 2028) as is ten days after the Trust Agreement shall be discharged by its terms.

Deposit of Proceeds

The Corporation agrees under the Installment Sale Agreement to deposit, or cause to be deposited, with the Trustee ~~\$8,759,000.~~* Of such amount, the Trustee is required to deposit (i) ~~\$830,313*~~ into the Reserve Fund, (ii) ~~\$101,722*~~ into the Delivery Costs Fund and (iv) the balance, ~~\$7,826,965*~~, into the Construction Fund. The City has covenanted to pay, from any legally available source of funds, any construction costs in excess of the Certificate proceeds available therefor.

Construction of Project

The cost of construction of the Project will be made from amounts held by the Trustee in the Construction Fund. The City will acquire and construct the Project as agent of the Corporation pursuant to the Installment Sale Agreement.

Installment Payments; Rate Covenant

Under no circumstances shall the City be required to advance any moneys derived from any source of income other than Net Revenues to make the Installment Payments. The City covenants to prescribe, revise and collect all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Sewer System which will ensure gross revenues sufficient in each Fiscal Year to provide Net Revenues equal to at least 1.10 times the aggregate annual payment requirements with respect to the Installment Sale Agreement and any parity obligations in such Fiscal Year, including replenishment of the Reserve Fund as required by the Trust Agreement.

Parity Obligations

The City has the right to issue parity debt on a parity with the Installment Sale Agreement, provided

- (i) The City is not in default under the terms of the Installment Sale Agreement;
- (ii) Net Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest Fiscal Year or any more recent twelve (12) month period selected by the City ending not more than sixty (60) days prior to the adoption of the resolution pursuant to which instrument such Parity Debt is issued or incurred, as shown by the books of the City, plus, at the option of the City, either or both of the items below designated (1) and (2), shall have amounted to at least 1.10 times the sum of the maximum Installment Payments coming due and payable in any future Fiscal Year and the maximum annual debt service on all Parity Debt outstanding immediately subsequent to the incurring of such additional obligations.

Either or both of the following items may be added to Net Revenues for the purpose of applying the restriction contained above:

- (1) An allowance for revenues from any additions to or improvements or extensions of the Sewer System to be made with the proceeds of such additional obligations, and also for net revenues from any such additions, improvements or extensions which have been made from moneys from any source but which, during all or any part of such Fiscal Year, were not

* Subject to change

in service, all in an amount **equal** to 70% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period following closing of the proposed Parity Debt, all as shown by the certificate or opinion of a qualified independent engineer employed by the City.

(2) An allowance for earnings arising from any increase in the charges made for service from the Sewer System which has become effective prior to the incurring of such additional obligations but which, during all or any part of such Fiscal Year, was **not** in effect, in an amount equal to 100% of the amount by which Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year and any period prior to the incurring of such additional obligations, as shown by the certificate or opinion of a qualified independent engineer employed by the City; and

(iii) A reserve fund shall be funded for such Parity Debt which **is** at Least equal to the amount resulting from the application on the closing date of such Parity Debt of the formula contained in the definition of "Reserve Requirement" contained in the Installment Sale Agreement.

Maintenance, Taxes, Assessments and Modifications

The City, at its own expense, has agreed to maintain the Sewer System in good repair, *the Corporation has no responsibility for such repair. The City has the power to make modifications and improvements to the Project which do not damage the Project or reduce the value of the Project to a value substantially less than that which existed prior to such modification or improvement. Any such modifications or improvements to the Project (except equipment or other personal property of the City) will automatically become subject to the Installment Sale Agreement. The City must pay or cause to be paid all taxes and assessments with respect to the Sewer System; provided that the City may in good faith contest any such taxes and assessments and may permit such taxes and assessments to remain unpaid during the period of such contest and any appeal therefrom.*

Insurance

The Installment Sale Agreement requires the City to maintain or cause to be maintained the following insurance against **risk** of physical damage to Sewer System structures and other **risks** for the protection of the Certificate Owners, the City, and the Trustee:

(i) **Public Liability and Property Damage.** Minimum coverages shall be \$1,000,000 for personal injury or death per person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event, and property damage insurance in the minimum coverage of \$250,000 per event, subject to a maximum \$200,000 deductible per accident. Such insurance may be maintained in the form of a minimum \$3,000,000 single limit policy covering all such risks. Such insurance may be carried in conjunction with any other liability insurance coverage carried or required to be carried by the City and may be maintained (and shall be obtained if such insurance is not obtained in the open market because it is unavailable at commercially reasonable rates, as described above) in the form of self-insurance by the City. If the City shall maintain self-insurance, it shall supply to the Trustee a statement of sufficiency by an independent insurance consultant or the City's risk manager on an annual basis. Such insurance shall be required only if in the opinion of the City such insurance is available at reasonable cost on the open market from reputable insurance companies.

(ii) **Fire and Extended Coverage Insurance.** Insurance against loss or damage to any structures, excluding transmission and distribution lines and equipment in public and private rights-of-way, constituting any part of the Sewer System (excluding transmission and distribution pipelines and equipment in public and private rights-of-way), by fire and lightning, with extended coverage insurance. Such insurance shall be in an amount equal to either (a) the greater of 100% of the replacement cost of the Project or (b) the then outstanding principal amount of Certificates (but only if in the opinion of the City such insurance is available at reasonable cost on the open

market from reputable insurance companies). For insurance described in (a) above, a maximum deductible of ten percent of said replacement cost for any one loss and, for insurance described in (b) above, of \$100,000 for any one loss, shall be allowable. Such insurance may be carried in conjunction with any other fire and extended coverage insurance carried or required to be carried by the City, and may be maintained (and shall be obtained if such insurance is not obtained in the open market because it is unavailable at commercially reasonable rates, as described above) in the form of self-insurance by the City. If the City shall maintain self-insurance, it shall supply to the Trustee a statement of sufficiency by an independent insurance consultant or the City's risk manager on an annual basis.

All policies of insurance (except the policy of public liability and property damage insurance) must provide that the net proceeds thereof shall be **payable** to the Trustee for the benefit of the Certificate Owners. Certain net proceeds of fire and extended coverage insurance shall be deposited in the Insurance and Condemnation Fund to be applied to rebuild the Project or redeem outstanding Certificates. The City has **agreed** to pay or cause to be paid when due the premiums **on** all insurance policies and furnish evidence of compliance with the insurance requirements of the Installment Sale Agreement annually to the Trustee.

Eminent Domain

In the event of the exercise of eminent domain with respect to the Project or any portion thereof, the **City** is required to deposit the net proceeds of any condemnation award in the Insurance and Condemnation Fund held by the Trustee. Such proceeds shall be applied to the repair or rehabilitation of the Project by the City, or shall be withdrawn from the Insurance and Condemnation Fund and applied to retire **all or a portion of** outstanding Certificates, pursuant to the Trust Agreement. In the event **less** than all of the Project shall be condemned, the Installment Sale Agreement shall continue **in** full force and effect **and shall** not be terminated by virtue of such taking, and there **shall** be a proportionate reduction in the amount of the Installment Payments, but in any event such that the resulting Installment Payments **will** be sufficient to pay the principal of and interest on the Certificates **then** outstanding.

Assignment, Sale or Lease of the Project

The Corporation has assigned to the Trustee, pursuant to the Trust Agreement, certain of **its** rights under the Installment Sale Agreement, including the right to receive **and** enforce payment of the Installment Payments to be made by the City. The City **may** not **assign** any of its rights or **sell** the **Project** or any **portion** thereof during the term of the Installment Sale Agreement. The City may lease the **Project** in whole or in part under the conditions contained in the Installment Sale Agreement, including the condition that the City **shall** continue to be obligated to **make** Installment Payments, **and** that such lease not cause the interest component of the Installment Payments to be subject to federal or California income taxes.

Events of Default

The following are "events of default" under the Installment Sale Agreement:

- (i) Failure by the City to **pay** any Installment Payment by the Installment Payment Date or failure to make any other payment required under the Installment Sale Agreement at the time specified therein;
- (ii) Failure by the City to **observe** and **perform** any covenant, condition or agreement on its part to be observed or performed in the Installment Sale Agreement or the Trust Agreement, other than as referred to in (i) above, for a **period** of thirty (30) days **after** written notice thereof has been **given** to the City by the Trustee, the Corporation, or the Owners of not **less** than 5% in aggregate principal amount of outstanding Certificates; provided that if **such** failure cannot be corrected within the applicable period, the Trustee, the Corporation or such Owners shall not

unreasonably withhold their consent to an extension of such time if corrective action is instituted by the City within the applicable period and diligently pursued until the default is corrected; and

(iii) Certain events relating to bankruptcy or insolvency of the City.

Upon the occurrence and continuance of any event of default, the Corporation shall have the right to (a) declare all principal components of the unpaid Installment Payments, plus accrued interest, to be immediately due and payable, and (b) take whatever action at law or in equity may appear necessary or desirable to collect the installment Payments or enforce performance of any obligation or covenant of the City under the Installment Sale Agreement. The Corporation has assigned certain of its rights under the Installment Sale Agreement to the Trustee under the Trust Agreement, including its rights in the event of default.

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TRUST AGREEMENT

The following is a brief outline of certain provisions contained in the Trust Agreement by and among the City, the Corporation and the Trustee, and is not to be considered a full statement pertaining thereto.

Trustee

The Trustee is appointed pursuant to the Trust Agreement to prepare, execute and deliver the Certificates and to act as a depository of amounts held thereunder. The Trustee is required to invest amounts held under the Trust Agreement in accordance with instructions of the City.

Funds

The Trust Agreement creates the Construction Fund, the Delivery Costs Fund, the installment Payment Fund, the Reserve Fund, the Insurance and Condemnation Fund and the Rebate Fund to be held by the Trustee.

Construction Fund. Payments for the costs of the Project will be disbursed from the Construction Fund upon direction of the City, as agent of the Corporation. Upon payment of the total cost of the Project, any moneys remaining in the Construction Fund are required to be transferred to the Installment Payment Fund and applied to pay the Installment Payments as they come due.

Delivery Costs Fund. The moneys in the Delivery Costs Fund shall be disbursed by the Trustee to pay expenses directly or indirectly payable by or reimbursable to the City or the Corporation relating to the financing of the Project from the proceeds of the Certificates (the "Delivery Costs") upon receipt of a requisition signed by the City representative setting forth the amounts to be disbursed for payment or reimbursement of Delivery Costs and the name and address of the person or persons to whom said amounts are to be disbursed, stating that amounts to be disbursed are for Delivery Costs properly chargeable to the Delivery Costs Fund which have not been the subject of a previous requisition.

Installment Payment Fund. All Installment Payments and prepayments received by the Trustee, and any other moneys required to be deposited therein, shall be deposited by the Trustee in the Installment Payment Fund, which shall be held by the Trustee in trust for the benefit of the Owners. All amounts in the Installment Payment Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal and interest and redemption premiums, if any, with respect to the Certificates as the same shall become due and payable.

Reserve Fund. Moneys in the Reserve Fund shall be used solely for the purpose of paying principal and interest due with respect to the Certificates in the event that the moneys in the Installment Payment Fund are insufficient therefor and for that purpose the Trustee shall withdraw and transfer moneys from the Reserve Fund to the Installment Payment Fund.

Insurance and Condemnation Fund. The Trust Agreement creates the Insurance and Condemnation Fund into which the net proceeds of certain insurance policies and eminent domain proceedings with respect to the Project are to be deposited by the Trustee.

Rebate Fund. The Trust Agreement requires the annual computation and segregation by the City of excess investment earnings for ultimate rebate to the United States in accordance with the provisions of the Internal Revenue Code of 1986.

The Trustee is also required to deposit certain net proceeds of fire and extended coverage insurance collected due to an accident to or destruction of all or part of the Project into the insurance and Condemnation Fund to be used to rebuild or repair the Project, if requested by the City, or to be used to redeem outstanding Certificates.

If all or any part of the Project shall be taken by eminent domain proceedings (or sold under threat thereof), the net proceeds therefrom shall be deposited with the Trustee in the Insurance and Condemnation Fund and disbursed as follows: (a) to the Installment Payment Fund as a credit toward prepayment of Installment Payments, if the City determines that such proceedings have not materially affected the operation of the Project or the ability of the City to meet its obligations under the Installment Sale Agreement, and the City determines that such proceeds are not needed for repair or rehabilitation of the Project; (b) to be used to rebuild or repair the Project if the City determines that such proceedings have not materially affected the operation of such Project or the ability of the City to meet its obligations under the Installment Sale Agreement, and the City determines that such proceeds are needed for repair or rehabilitation of the Project; and (c) to be used to redeem Certificates if all of the Project is taken or if such proceedings have materially affected the operation of the Project or the ability of the City to meet its obligations under the Installment Sale Agreement.

Investment of Funds. Moneys held by the Trustee under the Trust Agreement are required to be invested and reinvested in permitted investments. Permitted investments means any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein:

(a) any of the following which are noncallable (the "Federal Securities"): (1) direct obligations of (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), or obligations the payment of principal of and interest on which are unconditionally guaranteed by, the United States of America, including State and Local Government Series obligations; or (2) obligations of any of the following federal agencies which obligations represent full faith and credit of the United States of America: (i) Farmers Home Administration; (ii) General Services Administration; (iii) U.S. Maritime Administration; (iv) Small Business Administration; (v) Government National Mortgage Association; (vi) U.S. Department of Housing & Urban Development; (vii) Federal Housing Administration; (viii) Export-Import Bank of the United States; and (ix) Federal Financing Bank;

(b) U.S. Dollar denominated deposit accounts fully insured to the holder (up to the \$100,000 maximum coverage) by the Federal Deposit Insurance Corporation or by the Federal Savings and Loan Insurance Corporation;

(c) U.S. Dollar denominated deposit accounts, federal funds and banker's acceptances with commercial banks (foreign or domestic) which have a rating on their short term certificates of deposit on the date of purchase of "A-1" or "A-1+" by Standard & Poor's Corporation and "P-1" by Moody's Investors Service and maturing no more than 360 days after the date of purchase;

(d) Money market funds rated in the highest rating category of any nationally recognized rating agency, which are monitored quarterly and, for amounts of less than \$100,000, money market funds maintained by the banking department of the Trustee, so long as the Trustee, or its parent, has a combined capital and surplus of at least \$50,000,000;

(e) Pre-refunded municipal obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (i) which are not callable at the option of the obligor prior to maturity or as to which irrevocable notice has been given by the obligor to call on the date specified in the notice, and (ii) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or obligations described in (a) above, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (iii) which fund is sufficient, as verified by an independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (e) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in (i) above, as appropriate, and (iv) which are rated, based on the escrow, in the highest rating category of Standard & Poor's Corporation and Moody's Investors Service or any successors thereto: and

(f) written repurchase agreements with any bank, savings institution or trust company (including the Trustee) which is insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, or with any broker-dealer with retail customers which falls under Securities Investors Protection Corporation protection, provided that such repurchase agreements are fully secured by (a) above or obligations of any agency or instrumentality of the United States of America, and provided further that (i) such collateral is held by the Trustee or any agent acting solely for the Trustee during the term of such repurchase agreement, (ii) such collateral is not subject to liens or claims of third parties, (iii) such collateral has a market value (determined at least once every 30 days) at least equal to the amount invested in the repurchase agreement, (iv) the Trustee has a perfected first security interest in the collateral, (v) the agreement shall be for a term not longer than 270 days and (vi) the failure to maintain such collateral at the level required in (iii) above will require the Trustee to serve notice to the other party to correct such deficiency. If such deficiency is not corrected, the Trustee is directed to liquidate the collateral.

Event of Default

Upon the occurrence of an event of default by the City under the Installment Sale Agreement, the Trustee may exercise any and all remedies available under the Trust Agreement pursuant to law or granted pursuant to the Installment Sale Agreement. Upon the Occurrence of an event of default, the Trustee may, and shall, at the direction of the Owners of a majority of the outstanding principal amount of Certificates, declare the principal of the Installment Payments to be immediately due and payable. In the event the Trustee fails to take sufficient actions to eliminate such default, an Owner may institute any suit, action, mandamus or other proceeding in equity or at law for any remedy under the Trust Agreement if and only if such Owner and the Owners of a majority in aggregate principal amount of the Certificates then outstanding shall have first made written request of the Trustee to exercise the powers therein granted or granted under the law or to institute such action, suit or proceeding in its name, and, in addition, unless the Trustee shall have been offered reasonable indemnity against the cost, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request for a period of sixty (60) days after receiving such request and tender of indemnity.

Amendment

The Trust Agreement may be amended only by agreement among the City, the Trustee and the Corporation but no amendment shall become effective as to the Owners of the Certificates then outstanding without the written consent of sixty percent (60%) in aggregate dollar amount of the Certificates, provided, however, that in no event shall any such amendment extend the fixed maturity of any Certificate, reduce the interest rate with respect thereto, extend the time of payment of interest

or reduce the amount of principal (or premium) thereof without the express consent of the Owner of such Certificate. Notwithstanding the foregoing, the Trust Agreement may be amended without such Owners' consent but only for the purpose of (i) curing any ambiguity or correcting defects, or (ii) in regard to questions arising under the Trust Agreement, provided that such amendment does not adversely affect the interest of the Owners of the Certificates, or (iii) to assure compliance with the Internal Revenue Code of 1986 or to assure the federal tax exemption of the interest component of the Installment Payments.

Defeasance

Upon payment of all outstanding Certificates, either at or before maturity, or upon the deposit of cash fully insured by the Federal Deposit Insurance Corporation or Federal Securities (as defined in the Trust Agreement) with the Trustee which together with the amount of earnings calculated to accrue on any investment of such moneys or Federal Securities to maturity or applicable redemption dates, will be sufficient, with other available funds, to retire the outstanding Certificates at or before maturity, upon giving or providing for such notice, the Trust Agreement will be terminated subject to the payment of the Certificates.

Limitations of Liability

The Trust Agreement contains certain provisions limiting the liability of the parties thereto, including the following provisions:

(i) Except for the payment of Installment Payments and prepayments when due in accordance with the Installment Sale Agreement and the performance of the other covenants and agreements of the City contained in the Installment Sale Agreement and the Trust Agreement, the City shall have no pecuniary obligation or liability to the Corporation, the Trustee or the Owners with respect to the Trust Agreement or the terms, execution, delivery or transfer of the Certificates or the distribution of Installment Payments to the Owners by the Trustee except as expressly set forth in the Trust Agreement;

(ii) Neither the City nor the Corporation shall have any obligation or liability to each other, the Trustee or the Owners with respect to the performance by the Trustee of any duty imposed upon it by the Trust Agreement; and

(iii) The Trustee shall have no obligation or liability to the Owners with respect to the failure or refusal of any other party to perform any covenant or agreement under the Trust Agreement or the Installment Sale Agreement.

ASSIGNMENT AGREEMENT

I The following is a brief outline of certain provisions contained in the Assignment Agreement between the Corporation, as assignor, and the Trustee, as assignee, and is not to be considered a full statement pertaining hereto.

Under the Assignment Agreement, the Corporation has assigned to the Trustee for the benefit of the Owners of the Certificates, and the Trustee has accepted, all of the Corporation's rights and interest in the Installment Sale Agreement (except certain rights to repayment and indemnification), including, without limitation, the rights to receive and collect Installment Payments from the City under the Installment Sale Agreement, the rights to the pledge of Net Revenues, the right to receive insurance and condemnation proceeds, and the right to exercise rights and remedies under the Installment Sale Agreement, including enforcement of Installment Payments.

TAX EXEMPTION

In the opinion of Jones Hall Hill & White, A Professional Law Corporation, San Francisco, California, Special Counsel, subject, however, to the qualifications set forth below, under existing law, the portion of the Installment Payments designated as and comprising interest and received by the

owners of the Certificates is excluded from gross income for federal income tax purposes and **is** not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted net book income (adjusted current earnings for taxable years beginning after December 31, 1989).

The opinions set forth in the preceding paragraph are subject to the condition that the City comply **with** all requirements of the Internal Revenue Code of 1986 (the "Code") that must be satisfied subsequent to the delivery of the Installment Sale Agreement in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted **to comply** with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of delivery of the Installment Sale Agreement. special Counsel expresses no opinion regarding other federal tax consequences arising **with respect** to the Certificates

Prospective purchasers of the Certificates should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred **or** continued to purchase or carry the Certificates **or**, in the **case of** a financial institution, that portion of the Owner's interest expense allocated to interest payable with respect to the Certificates, (ii) with respect to insurance companies subject to the tax imposed by section 531 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest payable with respect to the Certificates, (iii) for taxable years beginning before January 1, 1992, interest payable with respect to the Certificates earned by some corporations could be subject to the environmental tax imposed by section 59A of the Code, (iv) interest payable **with respect** to the Certificates earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (v) passive investment income, including interest payable with respect to the Certificates, may be subject to federal income taxation under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income **and** (vi) section 86 of the Code requires recipients of certain Social Security **and** certain Railroad Retirement benefits to take **into** account, in determining the taxability of such benefits, receipts or accruals of interest payable with respect to the Certificates.

In the further opinion of Special Counsel, interest payable with respect to the Certificates is exempt from California personal income taxes.

CERTAIN LEGAL MATTERS

Jones Hall Hill & White, A Professional Law Corporation, San Francisco, California, Special Counsel, will render an opinion with respect to the validity and enforceability of the Installment Sale Agreement, the Trust Agreement and the Assignment Agreement, the draft form of which opinion is set forth in Appendix B. A copy of such approving opinion will appear on the reverse of each Certificate. Certain legal matters will be passed upon for the Underwriter by Mudge Rose Guthrie Alexander & Ferdon, New York, New York and for the City and the Corporation by the City Attorney.

ABSENCE OF LITIGATION

There is no litigation pending against the City, **nor**, to the knowledge of the officers or attorneys of the City, threatened, in any court or other tribunal of competent jurisdiction, state or federal, in any way (i) restraining or enjoining the issuance, sale or delivery of any of the Certificates, or (ii) questioning or affecting the validity of the Certificates or (iii) questioning or affecting the validity of any of the proceedings for the authorization, **safe**, execution or delivery of the Certificates, or (iv) questioning or affecting the validity or enforceability of the Installment Sale Agreement or Trust Agreement.

UNDERWRITING

The Certificates are being purchased by Seidler-Fitzgerald Public Finance (A **Division** of Seidler Amdec Securities Inc.) (the "Underwriter"). The Underwriter has agreed to purchase the Certificates at a price of \$..... (which includes an Original **Issue** Discount of \$.....). The purchase agreement for the Certificates provides that the Underwriter will purchase all of the Certificates at the price indicated above if any are purchased the obligation to make **such** purchase being subject to certain terms and conditions set forth in the purchase agreement. the approval of certain legal matters by counsel **and** certain other conditions. Under the terms of the purchase agreement the Underwriter is not obligated to, ~~nor~~ will it pay to the City, accrued interest from August 1, 1988 to the closing date.

The Underwriter may offer **and** sell Certificates to certain dealers and others at a price lower than the offering price stated on the Cover Page hereof. The offering price **may** be changed from time to time by the Underwriter.

AVAILABILITY OF DOCUMENTS

Copies ~~of the~~ Installment Sale Agreement, the Trust Agreement, and the Assignment Agreement will be **available**, upon written request, from the City Clerk of the City of Lodi, City Hall, 221 West Pine Street, Lodi, **California** 95240.

MISCELLANEOUS

References are **made** herein to certain documents **and** reports which are brief **summaries** thereof which **do** not **purport** to be complete or definitive **and** reference is made to such documents **and** reports for full and **complete** statements **of the** contents thereof.

Any statements in **this Official Statement** involving matters of opinion, whether or **not** expressly so stated, are intended as **such** and not **as** representations **of** fact. This Official Statement **is** not **to be construed as** a **contract** or agreement between the **City** and the purchasers or Owners of any **of the** Certificates.

The execution and delivery of this Official Statement has been **duly** authorized by the City.

CITY OF LODI, CALIFORNIA

By: _____
Mayor

Dated: July, 1988

APPENDIX A

THE CITY OF LODI

Neither the Certificates nor the obligation of the City to make Installment Payments under the Installment Sale Agreement constitute a debt of the City of Lodi under California law. The following information has been supplied by the City. The Underwriter makes no representations as to the accuracy of such information or any changes subsequent hereto. The following financial information with respect to the City is presented for information purposes only

General

Lodi was incorporated as a General Law city on December 6, 1906. Located in San Joaquin County, California, the City is 35 miles south of Sacramento, 90 miles east of San Francisco and 15 miles north of Stockton. Total acres within the City limits number 5,785 or 9.04 square miles. It is located on the main line of the Southern Pacific Railroad and is within five miles of Interstate 5. The City operates under a Council-Manager form of government.

Lodi is a major agricultural shipping center in the San Joaquin Valley. The prime agricultural land surrounding Lodi is a major producer of wine and brandy grapes, primarily the Flame Tokay variety. In addition to the local wineries, a large cannery, Pacific Coast Producers, is a prominent employer. The City is also the home of the west coast General Mills plant for the production of cereals and food mixes.

Population

The following table presents population statistics for the City for the years 1983 through 1988.

CITY OF LODI POPULATION For Years 1983 through 1988

Year (January 1)	Population
1983	38,050
1984	39,550
1985	40,950
1986	43,300
1987	45,800
1988	48,200(1)

Source: State Department of Finance.

(1) City of Lodi estimate.

Building Activity

The following table provides a summary of building permit valuation and the number of new dwelling units authorized in the City for the years 1982 through 1986.

CITY OF LODI BUILDING PERMIT VALUATION For Years 1982 through 1986

	1982	1983	1984	1985	1986
Valuation (in thousands)					
Residential	\$20,464	\$29,757	\$24,887	\$36,827	\$ 40,628
Nonresidential	15,307	8,043	7,035	36,650	24,486
Total	\$35,771	\$37,800	\$31,925	\$63,477	\$ 65,114
New Dwelling Units					
Single Family	226	262	147	261	369
Multiple Family	195	439	483	321	296
Total	421	701	630	682	665

Source: "California Construction Trends," Security Pacific National Bank.

Employment

Labor figures for the City are unavailable. However, the civilian labor force in San Joaquin County increased to an annual average of 199,300 in 1987, up 2.9 percent from the 1986 average of 183,900. The following table summarizes the labor force, employment and unemployment figures for the years 1983 through 1987 for the County, the State of California and the nation as a whole.

SAN JOAQUIN COUNTY LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT Yearly Average for Years 1983 through 1987

Year and Area	Civilian Labor Force	Employment	Unemployment	Unemployment Rate
1983				
San Joaquin County	177,700	149,800	27,900	15.7%
California	12,333,000	11,141,000	1,192,000	9.7
United States	111,550,000	100,534,000	10,717,000	9.6
1984				
San Joaquin County	181,700	157,800	23,900	13.1
California	12,503,000	11,532,000	971,000	7.8
United States	113,544,000	105,005,000	8,539,000	7.5
1985				
San Joaquin County	181,400	158,100	23,200	12.8
California	12,938,000	12,007,000	931,000	7.2
United States	115,461,000	107,150,000	8,311,000	7.2
1986				
San Joaquin County	183,900	162,600	31,300	11.6
California	13,365,000	12,373,000	892,000	6.7
United States	119,540,000	111,303,000	5,237,000	6.9
1987				
San Joaquin County	189,300	170,600	18,700	9.9
California	13,746,400	12,954,900	791,500	5.3
United States	119,865,000	112,440,000	7,425,000	6.2

Source: California Employment Development Department.

The largest private sector employers located within the City of Lodi area are shown in the following table:

CITY OF LODI
Largest Private Sector Employers
As of June 1, 1988

<u>Employers</u>	<u>Activity</u>	<u>Employees</u>
General Mills	Cereals and Food Mixes	950
Lodi Memorial Hospital	General Surgery and Medical Care	610
Goehring Meat	Meat Processing and Packing	535
Pacific Coast Producers	Can Manufacturer and Cannery	300-1,500 (Seasonal)
California Cushion	Cushion/Seat Covers	280
Valley Industries	Trailer Hitches	260
Doctor's Hospital of Lodi	General Surgery and Medical Care	250
Guild Winery	Winery	210
Lodi Fab	Industrial Storage Racking	193
Holz Rubber	Rubber Products	170

Source: City of Lodi.

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Income

The City experienced a 13.6 percent increase in its median household effective buying income between 1982 and 1986, as compared to 16.4 percent for the State and 12.0 percent for the nation for the same period. The following chart shows the yearly median household effective buying income and the total effective buying income for the City, the State of California and the nation for the years 1982 through 1986.

PERSONAL INCOME For Years 1982 through 1986

Year and Area	Total Effective Buying Income (000's omitted)	Median Household Effective Buying Income
1982		
City of Lodi	\$ 368.845	\$21,220
California	261,868,372	24,360
United States	2,169,679,337	22,000
1983		
City of Lodi	396,656	22,683
California	284,288,701	26,040
United States	2,329,209,922	23,420
1984		
City of Lodi	437.5 15	23.6 18
California	313,805,815	28,348
United States	2,575,533,380	25,496
1985(1)		
City of Lodi	513,281	22,137
California	346,280,970	26,557
United States	2,800,258,883	23,680
1986		
City of Lodi	569,303	24,103
California	383,811,129	28,227
United States	2,981,720,801	24,633

Source: Sales and Marketing Management Survey of Buying Power.

- (1) Commencing in 1985, Sales and Marketing Management Survey of Buying Power revised the method by which median household effective buying income is calculated, resulting in an average 12% downward revision of the 1985 and 1986 figures.

Retail Sales

The table below presents the City's retail sales for the years 1982 through 1986.

CITY OF LODI TAXABLE TRANSACTIONS For Years 1982 through 1986 (in thousands)

	1982	1983	1984	1985	1986
Apparel stores	\$ 5,953	\$ 6,869	\$ 6,883	\$ 7,259	\$ 7,733
General merchandise stores	22,013	23,600	26,521	31,714	33,630
Drug stores	12,556	13,463	12,980	13,412	13,504
Food stores	15,046	18,166	21,461	24,148	25,140
Package liquor stores	6,933	7,328	7,174	5,960	5,669
Eating and drinking places	21,675	23,811	25,235	27,911	32,166
Home furnishings and appliances	7,538	9,712	11,186	11,467	15,988
Building materials and farm implements	15,315	20,640	25,610	23,880	27,902
Automobile dealers and auto supplies	45,569	59,178	67,584	65,651	87,179
Service stations	22,227	22,055	24,158	24,528	19,220
Other retail stores	16,408	16,647	17,509	16,592	17,822
Total Retail Outlets	191,383	221,471	245,601	252,552	285,957
All other outlets	50,097	50,867	62,180	63,183	64,778
Total all outlets	<u>\$241,480</u>	<u>\$272,338</u>	<u>\$308,781</u>	<u>\$315,735</u>	<u>\$350,735</u>

Source: California State Board of Equalization.

Direct and Overlapping Debt

The direct and overlapping bonded debt of the City as of June 1, 1988 is shown below.

CITY OF LODI ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT As of June 1, 1988

1987-88 Assessed Valuation: \$1,504,761,791

DIRECT AND OVERLAPPING BONDED DEBT:

	% Applicable	Debt 6/1/88
Lodi Unified School District	42.372%	\$3,336,795
City of Lodi	100.	2,435,000(1)
City of Lodi 1915 Act Bonds	100.	1,300,000
TOTAL DIRECT AND OVERLAPPING BONDED DEBT		\$7,071,795

(1) Excludes the certificates of participation to be sold hereby.

Ratios to Assessed Valuation:

Direct Debt	0.16%
Total Debt	0.47%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/87: \$985,881

Source: California Municipal Statistics.

Constitutional Amendments Affecting City Revenues

On June 6, 1978 California voters approved Proposition 13, the Jarvis-Gann initiative, which added Article XIII A to the California Constitution. The principal thrust of Article XIII A is to limit the amount of ad valorem taxes on real property to 1% of "full cash value" as determined by the County Assessor. Article XIII A defines "full cash value" to mean "the County Assessor's valuation of real property as shown on the 1975-76 tax roll under 'full cash value', or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment period." Furthermore, all real property valuation may be increased to, reflect the inflationary rate, as shown by the consumer price index, not to exceed 2% per year, or may be reduced.

Article XIII A has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, and to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster.

Article XIII A exempts from the 1% tax limitation any taxes to repay indebtedness approved by the voters prior to July 1, 1978, and requires a vote of two-thirds of the qualified electorate to impose special taxes while totally precluding the imposition of any additional ad valorem, sales or transaction tax on real property. In addition, Article XIII A requires the approval of two-thirds of all members of the State Legislature to change any State tax laws resulting in increased tax revenues. On June 3, 1986, California voters approved an amendment to Article XIII W of the California Constitution to allow local governments to raise their property tax rates above the constitutionally mandated 1% ceiling for the purpose of paying certain new general obligation debt issued for the acquisition or improvement of real property and approved by two-thirds of the votes cast by the qualified electorate.

On September 22, 1978, the California Supreme Court upheld the general validity of Article XIII A against a series of challenges which attacked the Jarvis-Gann initiative as a whole (*Amador Valley Joint Union School District vs. State Board of Equalization*, 22 Cal. 3d 208 (1973)). The Court found that it was premature to rule on the claim that Article XIII A impermissibly interfered with contracts in violation of the U.S. Constitution, stating that such a challenge must come when a specific contract or obligation is impaired.

On November 6, 1979, California voters approved Proposition 4, the Gann initiative, which added Article XIII B to the California Constitution. The principal effect of Article XIII B is to limit the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population and services rendered by the governmental entity. The "base year" for establishing such appropriation limit is the 1975-79 fiscal year and the limit is to be adjusted annually to reflect changes in population, consumer prices and certain increases in the cost of services provided by these public agencies.

Appropriations subject to Article XIII B include generally the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to an entity of government from (1) regulatory licenses, user charges, and user fees (but only to the extent such proceeds exceed the cost of providing the service or regulation), and (2) the investment of tax revenues. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

On March 18, 1987, the City determined its annual appropriation limit for the fiscal year 1986-87 to be \$22,654,787. The limitation applies only to proceeds of taxes and therefore does not apply to service fees and charges, investment earnings on non-proceeds of taxes, fines, revenue from the sale of property and taxes received from the State and Federal governments that are tied to special programs.

Based on the 1986-87 budget, the funds subject to limitation (total General Operating Budget minus non-proceeds of taxes, debt service, and 1985-86 carry over) are \$10,622,668 below the Gann limit.

Initiative Limiting Local Taxes

A statutory initiative ("Proposition 62") was adopted by the voters at the November 4, 1986, General Election which (a) requires new or higher taxes to be approved by two-thirds of the governmental agency's legislative body and a majority vote of the electorate of the governmental entity; (b) requires the inclusion of specific information in all local ordinances or resolutions proposing new or higher general or special taxes; (c) penalizes local agencies that fail to comply with the foregoing and (d) requires local agencies to stop collecting any new or higher general taxes adopted after July 31, 1985, unless a majority of the voters approve the tax by November 5, 1988. The California Legislative Analyst and Director of Finance, in assessing the fiscal impact of this initiative on state and local governments, had indicated prior to voter approval that adoption of this initiative "would make it more difficult for city governments to impose new taxes in the future since under current law city general purposes taxes may be imposed or increased by 3 vote" of the city council. The City is unable to predict the potential adverse financial impact, if any, of the initiative on the City.

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Assessed Valuation and Tax Collections

In California, property which is subject to ad valorem taxes is classified as "secured" or "unsecured". Secured and unsecured property are entered on separate parts of the assessment roll maintained by the county assessor. The "secured roll" is that part of the assessment roll containing State assessed property and property the taxes on which are a lien on real property sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is placed on the "unsecured roll".

The method of collecting delinquent taxes is substantially different for the two classifications of property. The taxing authority has four ways of collecting unsecured personal property taxes: (a) filing a civil action against the taxpayer, (b) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer, (c) filing a certificate of delinquency for record in the county recorder's office, in order to obtain a lien on certain property of the taxpayer, and (d) seizure and sale of personal property improvements or possessory interest belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes in respect of property on the secured roll is the sale of the property securing the taxes to the State for the amount of taxes which are delinquent.

A 10% penalty is added to delinquent taxes which have been levied in respect of property on the secured roll. In addition property on the secured roll with respect to which taxes are delinquent is sold to the State on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquent penalty, plus a redemption penalty of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the county tax collector. A 10% penalty also attaches to delinquent taxes in respect of property on the unsecured roll, and further, an additional penalty of 1.5% per month begins to accrue in respect of such taxes beginning the first day of the third month following the delinquency date.

The valuation of property is determined as of March 1 each year and installments of taxes levied upon secured property become delinquent on the following December 10 and April 10. Taxes on unsecured property are due March 1 and become delinquent August 31, and such taxes are levied at the prior year's secured tax rate.

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CITY OF LODI
Current Tax Levies and Tax Collections
For Fiscal Years 1977-1978 through 1986-1987

<u>Fiscal Year</u>	<u>Total current levy</u>	<u>Total current collection</u>	<u>Total current uncollected</u>
1977-78.....	\$2,084,094	\$2,073,674	\$10,420
1978-79.....	1,143,149	1,137,433	5,714
1979-80.....	1,595,060	1,587,085	7,975
1980-81.....	2,202,571	2,191,558	11,013
1981-82.....	2,411,417	2,399,360	12,057
1982-83.....	2,564,413	2,551,591	12,822
1983-84.....	3,060,554	3,045,251	15,303
1984-85.....	3,076,430	3,061,048	15,382
1985-86.....	3,284,907	3,268,482	16,425
1986-87.....	3,596,928	3,578,943	17,985

Source: City of Lodi Finance Department.

The tax roll for the City for 1987-88 indicates a full market valuation of \$1,568,408,455. In addition to a ten year record of assessed and estimated full market valuations, the table below shows the City tax levies, collections, and delinquency percentages for the applicable fiscal years.

CITY OF LODI
ASSESSED VALUATION
For Fiscal Years 1977-78 through 1987-88

<u>Fiscal Year</u>	<u>Common Property</u>	<u>Public Utility</u>	<u>Unsecured Valuation</u>	<u>Total</u>
1977-78.....	\$ 110,143,948	\$ 5,084,930	\$ 9,903,809	\$ 125,132,687
1978-79.....	128,794,339	5,540,420	12,988,415	147,323,174
1979-80.....	145,280,112	5,082,480	13,297,948	163,660,540
1980-81.....	171,463,908	5,783,960	9,121,725	186,369,593
1981-82(1).....	779,573,787	25,027,380	41,017,963	845,619,130
1982-83.....	880,404,304	29,632,490	50,766,238	960,803,032
1983-84.....	939,820,723	31,454,630	54,728,419	1,026,003,772
1984-85.....	1,054,325,513	32,779,340	61,577,671	1,148,977,404
1985-86.....	1,171,959,370	36,845,170	67,722,679	1,276,527,219
1986-87.....	1,323,238,850	39,917,090	72,211,125	1,435,367,065
1987-88.....	1,442,628,011	41,897,460	83,882,984	1,568,408,455

(1) Beginning in fiscal year 1981-82, assessed valuations are stated at 100% of adjusted market values, formerly at 25%.

Source: Auditor-Controller reports, San Joaquin County.

Labor Relations

The following table provides a list of employee organizations in the City and the number of employees they represent as of July 1, 1988:

**CITY OF LODI
EMPLOYEE ORGANIZATIONS**

<u>Organization</u>	<u>Number of Members</u>
International Brotherhood of Electrical Workers Local 1245 (Maintenance and Operators Unit)	81
San Joaquin County Employees Association (General Services)	73
Police Officers Association of Lodi	45
United Firefighters of Lodi	40
International Brotherhood of Electrical Workers Local 1245 (Electric Unit) ...	24
Police Dispatchers Association of Lodi	19

Source: City of Lodi.

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APPENDIX B

[PROPOSED FORM OF LEGAL OPINION]

[Closing Dare]

City Council
City of Lodi
221 West Pine Street
Lodi, California 95240

OPINION: \$9,220,000* Certificates of Participation (1958 Wastewater Treatment Plant Expansion Project) Evidencing the Direct, Undivided Fractional Interests of the Owners thereof in Installment Payments to be made by the City of Lodi, California, as the ~~Purchase~~ Price for Certain Property Pursuant to a Installment Sale Agreement with the Lodi Public Improvement Corporation

Members of the City Council:

We have acted as special counsel in connection with the delivery by the City of Lodi, California (the "City"), of the \$9,220,000* Installment Sale Agreement, dared as of August 1, 1988, between the Lodi Public Improvement Corporation (the "Corporation") and the City (the "Installment Sale Agreement") pursuant to Section 37350 of the California Government Code. The Corporation has, pursuant to the Assignment Agreement, dated as of August 1, 1988 (the "Assignment Agreement"), between the Corporation and Bank of America National Trust and Savings Association, San Francisco, California, as trustee (the "Trustee"), assigned certain of its rights under the Installment Sale Agreement, including the right to receive installment payments made by the City thereunder (the "Installment Payments"), to the Trustee. Pursuant to the Trust Agreement, dated as of August 1, 1988, among the Trustee, the Corporation and the City (the "Trust Agreement"), the Trustee has executed and delivered certificates of participation (the "Certificates") evidencing undivided fractional interests of the owners thereof in Installment Payments. We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the City contained in the Installment Sale Agreement, the Trust Agreement and the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify the same by indepedent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The City is duly created and validly existing as a municipal corporation and general law city with the power to enter into the Installment Sale Agreement and the Trust Agreement and to perform the agreements on its part contained therein.

* Subject to change

City of Lodi
[Closing Dare]
Page 2

2. The Installment Sale (Agreement) has been duly authorized, executed and delivered by the City and is an obligation of the City valid, binding and enforceable against the City in accordance with its terms.

3. The Trust Agreement and the Assignment Agreement are valid, binding and enforceable in accordance with their terms.

4. Subject to the terms and provisions of the Installment Sale Agreement, the Installment Payments are payable from a first and prior lien on the Net Revenues of the Enterprise (as such terms are defined in the Installment Sale Agreement). By virtue of the Assignment Agreement, the owners of the Certificates are entitled to receive their fractional share of the Installment Payments in accordance with the terms and provisions of the Trust Agreement.

5. The portion of the Installment Payments designated as and comprising interest and received by the owners of the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted net book income (adjusted current earnings for taxable years beginning after December 31, 1989). The opinions set forth in the preceding sentences are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the delivery of the Installment Sale Agreement in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of delivery of the Installment Sale Agreement. We express no opinion regarding other federal tax consequences arising with respect to the Installment Sale Agreement and the Certificates.

6. The portion of the Installment Payments designated as and comprising interest and received by the owners of the Certificates is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Certificates and the enforceability of the Installment Sale Agreement, the Trust Agreement and the Assignment Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

Jones Hall Hill & White,
A Professional Law Corporation

PURCHASE AGREEMENT

dated July , 1988
relating to

\$
CERTIFICATES OF PARTICIPATION
(1988 WASTEWATER TREATMENT PLANT EXPANSION PROJECT)

Evidencing the Undivided Fractional Interests
of the Owners Thereof in
Installment Payments to be Made by the

CITY OF LODI, CALIFORNIA

As the Purchase Price for Certain Property
Pursuant to an Installment Sale Agreement with the
LODI PUBLIC IMPROVEMENT CORPORATION

between

SEIDLER-FITZGERALD PUBLIC FINANCE
(A Division of Seidler Amdec Securities Inc.)

and the

CITY OF LODI, CALIFORNIA

CERTIFICATES OF PARTICIPATION PURCHASE AGREEMENT (the "Purchase Agreement"), dated July , 1985, between Seidler-Fitzgerald Public Finance (A Division of Seidler Amdec Securities Inc.) (the "Underwriter") and the City of Lodi, California (the "City"), for the sale and delivery of \$ aggregate principal amount of certificates of Participation (1988 Wastewater Treatment Plant Expansion Project) (the "Certificates"), each evidencing an undivided fractional interest of the owner thereof in installment payments to be made by the City, as purchaser, under the Installment Sale Agreement, dated as of August 1, 1988 (the "Installment Sale Agreement"), with the Lodi Public Improvement Corporation, as 'seller (the "Corporation").

WHEREAS, the City proposes to finance certain capital improvements to its sewer system, more particularly described in Exhibit B to the Installment Sale Agreement (the "Project"), by purchasing the Project from the Corporation pursuant to the Installment Sale Agreement; and

WHEREAS, in order to provide funds to finance the Project, the City and the Corporation will cause Bank of America National Trust and Savings Association, as trustee (the "Trustee"), to execute and deliver certificates of participation evidencing undivided fractional interests of the owners thereof in payments to be made by the City to the Corporation under the Installment Sale Agreement (the "Certificates"), pursuant to a Trust Agreement, dated as of August 1, 1988 among the Corporation, the City and the Trustee (the "Trust Agreement"); and

WHEREAS, pursuant to the Constitution and laws of the State of California and resolutions of the City, duly adopted (the "Resolution"), the city will purchase the Project from the Corporation pursuant to the Installment Sale Agreement; and

WHEREAS, Installment Payments (as defined in the Installment Sale Agreement), and the rights of the Corporation thereto, will be assigned by the Corporation to the Trustee pursuant to an Assignment Agreement, dated as of August 1, 1988, by and between the Corporation and the Trustee (the "Assignment Agreement") for the purpose of making principal and interest payments with respect to the Certificates; and

WHEREAS, the City will direct the Trustee to execute and deliver the Certificates to the Underwriter for offering to the public; and

WHEREAS, the Corporation is a nonprofit public benefit corporation duly organized and existing under the laws of the State of California and is authorized to buy, sell and lease real and personal property;

NOW, THEREFORE, in consideration of the premises, the parties hereto do hereby agree as follows:

Section 1. Obligation to Purchase. Upon the terms and conditions and in reliance upon the representations, warranties and agreements set forth herein, the Underwriter hereby agrees to purchase for offering to the public, and the City agrees to cause the Trustee to execute and deliver, \$ _____ aggregate principal amount of Certificates, as described in the Official Statement relating to the Certificates, dated the date hereof, including the Appendices thereto (the "Official Statement"). The Underwriter shall have no obligation under this Purchase Agreement to purchase less than all of the \$ _____ aggregate principal amount of Certificates.

Neither the Certificates nor the obligation of the City to make Installment Payments constitutes an indebtedness of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation or an indebtedness of the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

Section 2. Purchase Price. The purchase price of the Certificates shall be \$ _____, which is _____ percent of the aggregate principal amount thereof, calculated as follows: \$ _____ aggregate principal amount of Certificates, less \$ _____ of Original Issue Discount on the Certificates maturing in the year _____, less Underwriter's Discount in the amount of \$ _____. The Original Issue Discount does not constitute compensation to the Underwriter. The purchase price does not include, and the Underwriter is not obligated to pay, accrued interest from August 1, 1988 to the date of delivery.

Section 3. Delivery of and Payment for the Certificates. The closing shall take place at 9:00 A.M., Pacific Time, on August 25, 1988 (the "Closing") in Los Angeles, California, or at such other time and place as may be mutually agreeable to the City and the Underwriter. At the Closing, the City shall cause the Trustee to deliver the Certificates to the Underwriter in definitive form, duly executed, together with the other documents hereinafter mentioned, against delivery of a Federal funds check, payable to the order of the Trustee, in the amount of \$ _____.

Section 4. The Certificates. The Certificates shall be delivered under the provisions of the Trust Agreement. The Certificates shall be in fully registered form without coupons, in the denomination of \$5,000 each or in any integral multiple thereof and registered in such names as the Underwriter shall request, and shall be made available to the Underwriter for checking, in Los Angeles, California, at least one business day prior to the Closing.

Payments with respect to the Certificates shall be made in the amounts, at the interest rates and on the dates set forth in Exhibit A attached hereto.

Section 5. Representations and Warranties of the City. The City represents and warrants to the Underwriter that:

(1) The City is a general law city, duly organized and existing pursuant to the Constitution and laws of the State of California, and has all necessary power and authority to adopt the Resolution, to enter into and perform its duties under the Trust Agreement, the Installment Sale Agreement and this Purchase Agreement, and, when executed and delivered by the respective parties thereto, the Trust Agreement, the Installment Sale Agreement and this Purchase Agreement will constitute legal, valid and binding obligations of the City enforceable in accordance with their respective terms, except as such enforceability may be limited by bankruptcy, reorganization, insolvency, moratorium or other laws affecting the enforcement of creditors' rights generally.

(2) The execution and delivery of this Purchase Agreement, the Installment Sale Agreement and the Trust Agreement, the adoption of the Resolution and compliance with the provisions thereof, including, but not limited to, the pledge of Net Revenues (as defined in the Installment Sale Agreement), will not conflict with the City's duties under, or constitute a breach of or default under, said documents or any law, administrative regulation, court decree, resolution, charter, by-laws or other agreement to which the City is subject to or by which It is bound.

(3) Except as may be required under the securities or "blue sky" laws of any state, there is no consent, approval, authorization or other order of, filing with, or certification by, any regulatory authority having jurisdiction over the City required for the execution, delivery and sale of the Certificates or the consummation by the City of the other transactions contemplated by this Purchase Agreement.

(4) There is no action, suit, proceeding or investigation at, law or in equity before or by any court or governmental agency or body, or to the best knowledge of the City, pending or threatened against the City to restrain or enjoin the authorization, execution

or delivery of the Certificates, or the pledge of the Net Revenues, or the collection of the payments to be made pursuant to the Installment Sale Agreement, or in any way contesting or affecting the validity of this purchase Agreement, the Trust Agreement, the Certificates or the Installment Sale Agreement or contesting the powers of the City to enter into or perform its obligations under any of the foregoing.

(5) The information under the captions "Introduction", "Estimated Uses of Proceeds", "The Project", "The Sewer System", "Absence of Litigation" and in Appendix A contained in the Official Statement is, and on the closing date shall be, true and correct in all material respects, and such information does not contain any untrue or misleading statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(6) The City agrees to cooperate with the Underwriter in endeavoring to qualify the Certificates for offering and sale under the securities or "blue sky" laws of such jurisdictions of the United States as the Underwriter may request; provided, however, that the City will not be required to execute a special or general consent to service of process or qualify as a foreign corporation in connection with any such qualification in any jurisdiction.

Section-6. Conditions Precedent to Closing. Conditions precedent to the Closing are as follows:

(1) Execution and delivery of the Trust Agreement, the Installment Sale Agreement and the Assignment Agreement in form and substance acceptable to Jones Hail Hill & White, A Professional Law Corporation ("Special Counsel"), Mudge Rose Guthrie Alexander & Ferdon ("Underwriter's Counsel") and counsel to the Trustee and delivery of a certified copy of the Resolution.

(2) An opinion of Special Counsel, dated the date of Closing, addressed to the City, in the form **set** forth in Appendix B to the Official Statement, together with a reliance letter addressed to the Underwriter.

(3) An opinion of Special Counsel, dated the date of Closing, addressed to the Underwriter, to the effect that (i) the Trust Agreement and the Installment Sale Agreement have each been duly authorized executed and delivered by, and each constitutes a legal, valid and binding agreement of, the City in accordance with its terms, (ii) the Certificates have been validly executed and delivered by **the** Trustee pursuant to the Trust Agreement and are entitled to the benefits of the **Trust** Agreement, (iii) based upon its participation in the preparation of the Official Statement, nothing has come to its attention that would lead it to believe that the

Official Statement (except as to financial information and statistical data included therein, including Appendix A thereto, as to which no opinion need be expressed) contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, (iv) the **Certificates** are exempt from registration under the Securities Act of 1933, as amended, and the Trust Agreement is exempt from qualification under the Trust Indenture Act of 1939, as amended, (v) the information in the Official Statement under the captions "Introduction", "The Certificates", "Installment Sale Agreement", "Trust Agreement", "Assignment Agreement", "Tax Exemption", "Certain Legal Matters" and "Miscellaneous" insofar as they describe the Certificates, the financing documents or the exclusion from gross income for purposes of federal income taxation of interest due with respect to the Certificates, is true and correct, and otherwise being in form and substance acceptable to Underwriter's Counsel and (vi) they have examined an executed Certificate and it is in the form required by the provisions of the Trust Agreement.

(4) An opinion of Underwriter's Counsel, dated the date of Closing, addressed to the Underwriter, to the effect that (i) based upon their participation in the preparation of the Official Statement, nothing has come to their attention that would lead them to believe that the Official Statement (except as to financial information and statistical data included therein, including Appendices A and B thereto, as to which no opinion need be expressed) contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, (ii) it is not necessary to register the Certificates under the Securities Act of 1933, as amended, and (iii) the Trust Agreement is exempt from qualification under the Trust Indenture Act of 1939, as amended.

(5) An opinion of the City Attorney, dated the date of Closing, addressed to the City, the Corporation and the Underwriter, to the effect that (i) the City is a general law city, duly organized and existing pursuant to the Constitution and laws of the State of California, and has all necessary power to adopt the Resolution and to enter into and perform its duties under the Trust Agreement and the Installment Sale Agreement, (ii) the Resolution has been duly adopted by the City, is in full force and effect, and has not been rescinded or modified in any manner, (iii) the Installment Sale Agreement, the Trust Agreement and this Purchase Contract have been duly authorized, executed and delivered by the City and constitute legal, valid and binding obligations of the City enforceable in accordance with their terms, except as such enforceability may be limited by bankruptcy, reorganization, insolvency, moratorium or other laws affecting the enforcement of creditors' rights generally,

(iv) the execution and delivery of the Trust Agreement, the Installment Sale Agreement and this Purchase Agreement by the City and compliance by the City with the provisions thereof, will not conflict with the City's duties under, or constitute a breach or default under, said documents or any ~~E.~~ administrative regulation, court decree, resolution, charter, by-laws or other agreement to which the City is subject or by which it is bound, (v) there is no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or, to the best of their knowledge, threatened against the City to restrain or enjoin the collection of the payments to be made pursuant to the Installment Sale Agreement, or in any way contesting or affecting the validity of the Trust Agreement, the Installment Sale Agreement or this Purchase Agreement or contesting the powers of the City to enter into or perform its obligations under any of the foregoing, (vi) nothing has come to his attention to lead him to believe that the material contained in the Official Statement relating to the City contains any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and (vii) the information under the captions "Introduction", "Estimated Uses of Proceeds", "The Project", "The Sewer System", "Absence of Litigation" and "Availability of Documents" in the Official Statement is true and correct in all material respects and such information does not contain any untrue or misleading statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, that no opinion need be expressed with respect to any statistical or financial information found in the Official Statement, and otherwise being in form and substance acceptable to Underwriter's Counsel.

(6) An opinion of counsel to the Trustee, dated the date of Closing, addressed to the City and the Underwriter, to the effect that (i) the Trustee is a national banking association duly organized and validly existing and in good standing under the laws of the United States with all requisite power to enter into and perform its obligations under the Trust Agreement and the Assignment Agreement, (ii) the authorization, execution and delivery by the Trustee of the Trust Agreement and the Assignment Agreement and compliance with the provisions thereof will not conflict with or constitute a default under or breach of the Trustee's articles of incorporation, by-laws, or any rule or regulation or court decree to which the Trustee is bound; (iii) the Trust Agreement and the Assignment Agreement have been duly authorized, executed and delivered by the Trustee and are legal, valid and binding agreements with respect to the duties, obligations, responsibilities, covenants and representations of the Trustee, and are enforceable in accordance with their terms (subject to the enforceability of remedies to any applicable bankruptcy, reorganization, insolvency, moratorium or other laws, decisions or

equitable principles affecting the enforcement of creditors' rights generally; (iv) the Trustee has validly executed and delivered the Certificates in accordance with the Trust Agreement, and otherwise being in the form and substance acceptable to Special Counsel and Underwriter's Counsel.

(7) An opinion of the City Attorney acting as counsel to the Corporation, dated the date of Closing, addressed to the City and the Underwriter, to the effect that (i) the Corporation is a duly organized non-profit corporation, duly organized and validly existing under the Constitution and laws of the State of California, and has all necessary power to enter into and perform its duties under the Trust Agreement, the Installment Sale Agreement and the Assignment Agreement, (ii) the Installment Sale Agreement, the Trust Agreement and the Assignment Agreement have been duly authorized, executed and delivered by the Corporation and constitute legal, valid and binding obligations of the Corporation enforceable in accordance with their terms, except as such enforceability may be limited by bankruptcy, reorganization, insolvency, moratorium or other law affecting the enforcement of creditors' rights generally, (iii) the execution and delivery of the Installment Sale Agreement, the Trust Agreement and the Assignment Agreement by the Corporation and compliance by the Corporation with the provisions thereof, will not conflict with, or constitute a breach of or default under, the Corporation's duties under said documents or any law, administrative regulation, court decree, resolution, charter, by-laws or other agreement to which the Corporation is subject or by which it is bound, (iv) there is no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or, to the best of their knowledge, threatened against the Corporation to restrain or enjoin the collection of the payments to be made pursuant to the Installment Sale Agreement, or in any way contesting or affecting the validity of the Installment Sale Agreement, the Trust Agreement or the Assignment Agreement or contesting the powers of the corporation to enter into or perform its obligations under any of the foregoing, (v) nothing has come to his attention to lead him to believe that the material contained in the Official Statement relating to the Corporation contains any untrue statement of material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and (vi) the information under the caption "The Corporation" in the Official Statement is true and correct in all material respects and such information does not contain any untrue or misleading statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and otherwise being in form and substance acceptable to Special Counsel and Underwriter's Counsel.

(8) A Certificate of the Finance Director of the City, dated the date of Closing, substantially to the effect that (i) as to the financial information and statistical data included therein, the material contained in the Official Statement relating to the City as of the date of the Official Statement did not, and as of the date of Closing does not, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, (ii) since June 30, 1987, there has been no material adverse change in the financial condition of the City, and (iii) the information in the Official Statement under the captions "The Project", "Estimated Uses of Proceeds", "The Sewer System", "Availability of Documents", and the information relating to the City in Appendix A thereto is true and correct, and otherwise being in form and substance acceptable to Special Counsel and Underwriter's Counsel.

(9) Certificate of an authorized officer of the Trustee to the effect that (i) the Trustee is a national banking association duly organized and in good standing under the laws of the United States of America and has all necessary power and authority to enter into and perform its duties under the Trust Agreement and the Assignment Agreement; (ii) the Trustee is duly authorized to enter into the Trust Agreement and the Assignment Agreement and to execute and deliver the Certificates and, when executed and delivered by the other respective parties thereto, the Trust Agreement and the Assignment Agreement will constitute legal, valid and binding obligations of the Trustee enforceable in accordance with their respective terms; (iii) the Trustee has duly executed and delivered the Certificates and (iv) to the best knowledge of the Trustee, the execution and delivery of the Trust Agreement and the Assignment Agreement and compliance with the provisions thereof, will not conflict with, or constitute a breach of or default under, the Trustee's duties under said documents or any law, administrative regulation, court decree, resolution, charter, by-law or other agreement to which the Trustee is subject to or by which it is bound. No representation or warranty need be made as to any state or federal securities law, or the effect on any payment on any Certificate of any federal, state or local tax law.

(10) A Certificate of the City, dated the date of Closing, to the effect that the information relating to the City in the Official Statement is, as of the closing date, true and correct in all material respects, and such information does not contain any untrue or misleading statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(11) Evidence satisfactory to the Underwriter of insurance in compliance with Sections 5.03 and 5.04 of the Installment Sale Agreement (which evidence may be in the form of a certificate from the risk manager of the City).

(12) Such other certificates, instruments or opinions as Special Counsel or Underwriter's Counsel may deem necessary or desirable to evidence the due authorization, execution and delivery of documents pertaining to this transaction and the legal, valid and binding nature thereof, as well as compliance of all parties with the terms and conditions hereof.

Section 7. Events Permitting the Underwriter to Terminate.
The Underwriter may terminate its obligation to purchase the Certificates at any time before Closing if any of the following occurs:

(a) Legislation shall have been introduced in or enacted by the Congress of the United States or adopted by either House thereof, or legislation pending in the Congress of the United States shall have been amended, or legislation shall have been recommended to the Congress of the United States or otherwise endorsed for passage (by press release, other form of notice or otherwise) by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the U.S. Senate Committee on Finance or the U.S. House of Representatives Committee on Ways and Means or legislation shall have been proposed for consideration by either such Committee by any member thereof or legislation shall have been favorably reported for passage to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or a decision by a court of the United States or the Tax Court of the United States shall be rendered, or a ruling, regulation or fiscal action shall be issued or proposed by or on behalf of the Treasury Department of the United States, the Internal Revenue Service or other governmental agency with respect to or having the purpose or effect of imposing federal income taxation upon interest received on bonds or obligations of the general character of the Certificates, which, in the reasonable opinion of the Underwriter, materially affects the market for the Certificates or the sale, at the contemplated offering prices, by the Underwriter of the Certificates to be purchased by them;

(b) Any action by the Securities and Exchange Commission or a court which would require or could be interpreted to require registration of the Certificates or

any instrument securing the Certificates under the Securities Act of 1933, as amended, in connection with the public offering thereof, or qualification of the Trust Agreement under the Trust Indenture Act of 1933, as amended;

(c) Any restriction on trading in securities, or any banking moratorium, or the inception or escalation of any war or major military hostilities which, in the judgment of the Underwriter, substantially impairs the ability of the Underwriter to market the Certificates; or

(d) Any event or condition which, in the judgment of the Underwriter, renders untrue or incorrect, in any material respect as of the time to which the same purports to relate the information, including the financial statements, contained in the Official Statement, or which requires that information not reflected in the Official Statement should be reflected therein in order to make the statements and information contained therein not misleading in any material respect as of such time.

Section 8. Fees and Expenses. The Underwriter shall pay the costs and expenses incurred by it in connection with this financing including advertising and selling expenses, and the fees and disbursements of Underwriter's Counsel.

The City shall pay all other costs in connection with the execution and delivery of the Certificates from the proceeds of the Certificates including the cost of printing or reproducing the Preliminary Official Statement, the Official Statement and the Certificates, the fees and expenses of the Trustee (including counsel fees), the fees and disbursements of Special Counsel, and the fees and disbursements of any other experts or consultants retained by the city.

Section 9. Notices. Any notices to be given the Underwriter under this Purchase Agreement shall be given in writing to Seidler-Fitzgerald Public Finance, 515 South Figueroa Street, Los Angeles, California 90071-3396, Attention: Managing Director. Any notices to be given the City under this Purchase Agreement shall be given in writing to City of Lodi, California, 221 West Pine Street, Lodi, California 95240, Attention: City Manager.

Section 10. No Assignment. This Purchase Agreement has been made by the City and the Underwriter, and their successors or assigns, and no person other than the foregoing shall acquire or have any right under or by virtue of this Purchase Agreement. All of the representations, warranties and agreements contained in this Purchase

Agreement shall survive the delivery of and payment of the Certificates and any termination thereof.

Section 11. applicable Law. This Purchase Agreement shall be interpreted, governed and enforced in accordance with the laws of the State of California.

Section 12. Counterparts. This Purchase Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 13. Effectiveness. This Purchase Agreement shall become effective upon the execution and the acceptance hereof by the Underwriter and the City and shall be valid and enforceable from and after the time of such execution and acceptance.

Section 14. Severability. In the event any provision of this Purchase Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

SEIDLER-FITZGERALD PUBLIC
FINANCE (A Division of
Seidler Amdec Securities
Inc.)

By: _____

CITY OF LODI, CALIFORNIA

.... ~~B~~ _____

Acknowledge receipt of a
copy:

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION

By: _____
Authorized Officer

Exhibit A

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CITY OF LODI, CALIFORNIA
CERTIFICATES OF PARTICIPATION
(1988 WASTEWATER TREATMENT PLANT EXPANSION PROJECT)

<u>Maturity Date</u> <u>August 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
1989		
1990		
1991		
1992		
1993		
1994		
1995		
1996		
1997		
1998		
1999		
2000		
2001		
2002		
2003		
2018		

Mandatory Redemption

<u>Date</u> <u>August 1</u>	<u>Principal</u> <u>Amount</u>
2004	
2005	
2006	
2007	
2008	
2009	
2010	
2011	
2012	
2013	
2014	
2015	
2016	
2017	
2018*	

* Final Maturity

Office of Finance Director
CITY OF LODI, CALIFORNIA

David R. LeBeau

REL.

1969 JUL 18

No. 02148

Date _____

~~Check No.~~

[illegible]

ROBERT H. HOLM
Finance Director

By